BANKING

J U L Y 1 9 3 7

The Condition of BUSINESS

GOVERNMENT deficits in the midst of plenty and a new kind of labor unrest are causing anxiety as trade and industry enter the second half of 1937. The solution of both problems rests largely with public opinion, which seems to be increasingly impatient with strike disorders and convinced that the country should balance its budget while there is an opportunity and start paying its debts.

Business men feel that the Government should make more aggressive efforts to live within its means. The period of prosperity through which we are passing has brought about a marked reduction in unemployment and a substantial rise in the national income, yet the relief rolls are still large and the bill is a matter of ten figures.

UNION CONTROL. Much depends on how the labor situation develops. The current controversy is unusual in that it involves a dispute over union control. Questions relating to higher wages or better working conditions have assumed a secondary position. Indeed, where such issues have arisen industry appears to be endeavoring, as effectively as possible, to remove the causes of complaint.

BUSINESS ACTIVITY. Seasonal tendencies considered, trade volumes have been maintained thus far. On the whole, the record has presented a favorable appearance, particularly in view of the prevalence of serious strikes, pending legislation embodying revolutionary changes in Government control of wages and hours, the protracted decline in stocks and, of course, the now familiar procrastination over Government budget balancing and economy.

However, any extended period of labor strife, for whatever cause, would certainly have a damaging psychological effect, to say nothing of the severe dent in national purchasing power as a result of lost wages and profits.

BACKLOG. Aside from the effects of strikes, immediate business prospects hardly seem better than a month ago when the failure of new orders to keep pace with current production caused some misgivings. It is now generally realized that much of the buying volume in recent months represented an anticipation of higher prices and the labor difficulties which have since arrived. This forward ordering has sustained business well into the Summer; but it also satisfied immediate needs, and many buyers are out of the market. Thus some trade recession shortly seems inevitable.

HEAVY INDUSTRIES. Automobile production schedules have been interrupted by forced closings, but sales are high. The Automobile Manufacturers' Association reported sales for the first four months of 1937 at 1,502,963 units compared with 1,480,031 in the same period of 1929, the previous record. So far this year purchases of new cars are 13 per cent above those of 1936.

Steel activity dropped sharply when the strike spread among the so-called independent producers; presumably the rate of activity would have tapered off anyway from its recent excursion into the 90's. The industry's backlog is sufficient to keep it comfortably and profitably busy for some time, and new orders are running at about 75 per cent of current shipments, a good proportion at this season.

NEW BUILDING. There has been considerable variation in the volume of new building contracts, but on the whole the figures have averaged about 10 per cent over last year, the chief feature being an increase in private construction. This has risen as public building has fallen off. The largest gain comes in industrial construction which supports the long term prospects for good business. However, a steady increase in costs carries the possibility of a slower building rate.

OTHER TRADE. Retail business has been spotty and in some districts disappointing. A small slump in consumers' goods industries, reflecting sales conditions, is generally considered a natural reaction from many months of steady advance. Textiles offer an example. The unprecedented activity of that industry for more than a year has undoubtedly reached its peak; at least, for the past three months new orders have fallen short of output.

IMPROVING PRODUCTION FACILITIES. The demand for capital goods continues. Steel, automobile, tire, chemical, machinery and other manufacturers are making heavy outlays for modernization, decentralization and reequipment of plants. Machine tool output so far this year has been the heaviest in the industry's history. Railways are continuing their outlays for betterments and new rolling stock.

OUR STERILIZED GOLD. Indirectly, finance is still dominated by imports of gold. It is still uncertain how far the Government economy movement will affect the prospective deficit for the new fiscal year, but with constant new, though modified, demands on the Treasury it is unlikely that economy can save more than extravagance will dissipate. The social security program will withdraw more than a billion dollars of Government securities from the market next year, so that even with a considerable deficit on net account, probably no new money will be borrowed by the Government except for sterilizing incoming gold.

The "inactive" gold fund is about a billion dollars and it is estimated that Europe has at least another billion of privately held metal, part of which may find its way here in the next few months. Whatever the amount may be, it must be offset by issues of bills or Treasury notes.

Rumors of a change in Government policy have been officially denied and indeed few close observers believe that any other policy is now practicable. The general prospect is for an end to heavy Government borrowing and a rather sharp reversal from demands upon the money market which have persisted during the past seven years.

MONEY. Interest rates seem to have become fairly well stabilized, with some adjustment of the unnatural margin between long and short term rates. The general situation is indicated by the fact that the Treasury has been compelled to increase the rate on its notes. The June financing of $800,000,000, half in 1⅜ per cent two-year notes and half in 1¾ five-year notes, is at the highest rate for these maturities in three years. The increase in reserve requirements and a better demand for commercial loans have had a part in lifting the rate.

It is to be noted that movements in our bond market have been paralleled in Canada, Great Britain and France. Such movements in Great Britain for the most part recently have preceded those in the United States, leading to an impression among some observers that the London market has been having an undue influence upon the American. With the passing of the June financing and with adjustments following increased reserve requirements the consensus of the market is that there will be slight changes in money rates before Autumn. What happens in the closing months of the year will depend upon business conditions.

Country Banking

ALTHOUGH economic dissection of the depression is still an active literary pursuit, writers are also closely examining its sociological aspects, and the banker finds on his current reading lists many books that deal with social trends. These, somewhat more tardy in making their appearance, are scarcely less important in their bearing on the future of human relationships.

Much of this material is factual, the fruit of research, and is presented with a minimum of interpretation, the latter operation being left to the reader who may or may not welcome the opportunity to do some independent thinking.

* * *

How the economic upheaval affected 140 village-centered agricultural communities is told in *Rural Trends in Depression Years* (Columbia University Press, New York, $3.25). This book, by Edmund deS. Brunner and Irving Lorge of Teachers College, Columbia, presents a broad picture of rural sociology from 1930 to 1936. The discussion includes reports on the changes in trade, industry, banking, education, religion and social life. It also considers relief.

Going into some detail with regard to banks in the 140 villages, the book offers comparative data on the number of banks, deposits, failures, mergers, branches, the number of places without banks, average number of banks per village, composite figures on resources and liabilities, and postal savings facilities (which increased from 63 departments in 1930 to 85 in 1935). In summary, the authors find that the incidence of bank failure "was greatest in places with populations under 2,500.

"The entire history of the depression and its results on the banking situation in these villages indicate three things: first, a great financial loss in terms of money lost by depositors; second, the curtailment and elimination of banking facilities; and third, an increased tendency towards branch banking. It is apparent that readjustments in banking are necessary to prevent similar recurrences of bank failures and to prevent monopolistic banking practice in villages and their surrounding communities."

Another recently published study is the widely publicized *Middletown in Transition*, by Robert S. Lynd and Helen Merrell Lynd (Harcourt, Brace and Company, New York. $5). This book takes up the story of "Middletown" in 1925—where the Lynds' previous survey left it—carries it through the boom and depression years, and ends with the election of 1936. Essentially a microscopic study of American culture, it inventories the small city section of our national life during a critical decade and on the threshold of a perplexing future. The fortunes of Middletown's banking institutions, including building and loan associations, are reviewed in an appendix to which an unnamed local banker contributes comment.

* * *

An example of banking studies by a state group is provided by the 1937 report of the research committee, Indiana Bankers Association. (See "How Indiana Researched" on page 26). The Hoosier bankers have approached their research problem from two angles. Using the facilities of the School of Business Administration, Indiana University, the objective viewpoint of trained scholars was obtained; utilizing the services of the committee members, the practical viewpoints of representative Indiana bankers were woven into the discussion and conclusions.

Part I, "A Study in Recent Banking Trends", covers in detail the changes in Indiana banking for the period 1916–1936. Part II, "Merchandising Your Bank's Services", contains a discussion of and suggestions for a complete, integrated measured service plan adaptable to any bank. The report, 184 pages long, reviews, among other things, population increases since 1800, manufacturing trends, new methods of financing, and agricultural credit. A section on the adequacy of the Indiana banking system shows that all communities with an appreciable demand for banking facilities are either served by banks, or are so located that branches within the county boundary limitations of the state law could be established. The report says there is some reason to believe that, rather than a scarcity of units, there is a larger number than is absolutely necessary.

BOOKS IN BRIEF

COMMEMORATING its 50th anniversary, the Kansas Bankers Association publishes *The Story of Banking in Kansas*. This attractively printed little book contains much information about Kansas banks and bankers, and is a souvenir worthy of a golden jubilee.

R. G. Hawtrey, Assistant Secretary of the British Treasury, has published a new book that will interest many American readers. Entitled *Capital and Employment* (Longmans, Green & Company, New York, $5), it is a critical study of some current economic doctrines as expressed in works by J. M. Keynes, Major Douglas of social credit fame, and others.

The Common Stock Theory of Investment. By Chelcie C. Bosland. (Ronald Press, New York. $2.50.) Dr. Bosland, associate professor of economics at Brown University, summarizes various studies of this theory and considers the evidence on both sides, especially in the light of depression experience. Given a number of conditions, such as diversification, discretion and reasonable price levels, he finds reason to believe that over a period of years common stocks will continue to yield a better return than high grade bonds. But if the investor's knowledge is inadequate, he will probably learn that a savings bank return is rather attractive, after all.

Capital Surplus and Corporate Net Worth. By Raymond P. Marple. (Ronald Press, New York, $3.) A statement of accounting principles with respect to capital surplus, by the head of the research and service department, National Association of Cost Accountants.

Volume XXX No. 1. Published monthly by the American Bankers Association at 22 East 40th St., New York City. Fred N. Shepherd, Editor and Publisher; William R. Kuhns, Managing Editor. Assistant Editors, William P. Bogie and John L. Cooley; L. E. Lascelle, Business Manager. Field representatives, Alden B. Baxter, Advertising Manager, Prentiss Jackson, Jr., and Richard F. Durham, 22 E. 40th St., New York City; Robert W. Kneebone, 230 N. Michigan Ave., Chicago, Ill.; R. J. Birch & Co., Los Angeles and San Francisco, Cal. Washington office, 708 Colorado Building. Subscriptions: $3 yearly; Canada, $3.36; foreign, $3.72; single copies, 25 cents. Entered as second-class matter May 5, 1909, at the Post Office at New York, N. Y., under the Act of March 3, 1879. Additional entry at Concord, N. H.

The Status of Double Liability

ON July 1 removal of double liability of national bank stockholders became effective in the case of institutions that had given the six months' notice prescribed by the Banking Act of 1935. The general assumption is that by the end of the year virtually all national banks will have taken advantage of the law.

The situation of state-chartered banks with respect to double liability is of interest and importance in this connection; it has changed considerably in the last two years. In order to make available the latest information on this subject the Legal Department of the American Bankers Association has prepared for BANKING the appended synopsis of stockholder status in each state.

ALABAMA. Liability has always been single. Stockholder is liable only on unpaid stock owned by him. Constitutional provision only.

ARIZONA. Double liability provided both by constitution and statute.

ARKANSAS. Double liability provided for by statute only. Stockholders in banks insured under F.D.I.C. not subject to double liability. Stockholders of banks not insured to be relieved from liability from date of procuring insurance. Act No. 130 of 1935, as amended by Act No. 325, approved March 25, 1937.

CALIFORNIA. Double liability provided for by statute, except on stock in insured banks issued on and after October 25, 1933. Insured banks may terminate liability imposed on stockholders provided that not less than six months prior to date of termination written notice thereof is served on Superintendent of Banks and copy of such notice is published as required. Act No. 285, approved May 13, 1937.

COLORADO. Triple liability imposed except on stockholders in insured banks. Liability applies if such bank ceases to be a member of F.D.I.C. H.B. No. 878, approved May 5, 1937.

CONNECTICUT. Liability has always been single. There is no constitutional or statutory provision.

DELAWARE. Statutory liability has always been single, except that it is provided that liability may otherwise be fixed by agreement in articles of association.

DISTRICT OF COLUMBIA. Double liability ceases July 1, 1937 upon prior publication of notice, as required, for six months.

FLORIDA. Statutory double liability removed as to members F.D.I.C. or institutions having surplus equal to capital. H.B. No. 188, effective July 1, 1937.

GEORGIA. Single liability imposed by Statute. S.B. No. 83, approved March 31, 1937, amends section 13–1901 of Georgia Code (1933), by providing that banks shall be responsible to creditors to extent of capital and assets, and that stockholders shall be individually liable for all debts of said bank only to the extent of balance remaining unpaid on stock.

IDAHO. Liability has always been single under constitutional provision.

ILLINOIS. Double liability is provided for both by constitutional and statutory authority. Bills now pending for submission of constitutional amendment to the voters at the next general election in November 1938.

INDIANA. Double liability provided for both in constitution and by statute. In chapter 309, laws of 1937 (S. J. Res. No. 3), the legislature agreed to and referred the constitutional amendment providing for the repeal of bank stockholders' liability to the next general assembly for reconsideration and agreement. The proposed amendment reads, "That the constitution of the State of Indiana be amended by striking out section 6 of Article 11." This legislation must be passed by the next general assembly and referred to the people for approval before becoming effective.

IOWA. Under act of January 21, 1933, the Superintendent of Banks may issue stock on reorganization, which stock shall be non-assessable. Stock of state banks acquired after November 30, 1933, is non-assessable under sections 9283–f11 to 9283–f16 of Iowa Code (1935). Under H.B. 487, effective July 4, 1937, §§9246–9254 imposing double liability were repealed and liability was removed as to shares issued prior to December 1, 1933, and as to any shares issued thereafter in lieu of shares issued prior to that date of banks doing business on July 4, 1937; such provisions shall not be applicable to any claim existing May 1, 1937. All claims under said sections shall be barred from and after January 1, 1938. The result of these various acts is that after January 1, 1938 liability will be single as to all stock of banks in Iowa.

KANSAS. Double liability provided for by statute. H.B. No. 5, approved March 23, 1937, amends section 9–110 of General Statutes (1935) to provide that double liability shall not apply to shares issued after effective date of Act. (In effect on publication.) As to shares issued prior thereto, bank may terminate additional liability by publication for six months prior to date of termination.

KENTUCKY. Double liability provided for by statute under section 595. Such liability does not apply to shares issued after May 16, 1937. As to shares issued prior thereto, repeal will be effective July 1, 1937, or at date liability ceases on shares issued by national banks, if on that date bank is transacting business and has given six months' notice prior thereto of proposed termination of such liability. In cases where such notice has not been given, the repeal will be effective as of date six months subsequent to publication.

LOUISIANA. Liability has always been single under statutory provision.

MAINE. Chapter 184, laws of 1937, approved April 16, 1937, repealed section 93 of Chapter 57 of Revised Statutes of Maine (1930) as amended in 1933, which provided for double liability, except as to shares issued after December 16, 1933, and provided for double liability as to deposits and outstanding claims in trust companies on that date, which liability might be removed proportionately by accumulation of surplus. Act of 1937 provides that liability as heretofore provided as to deposits in and claims outstanding against trust companies April 16, 1937, shall be continued until terminated as provided by Act. Liability ceases on November 1, 1937, on shares in trust companies transacting business on said date, provided that trust company shall have published notice three months prior thereto. If trust company fails to give such notice at such time, termination of liability may be accomplished as of date three months subsequent to publication as provided. "No such notice shall be required as to shares of common stock in any bank or trust company issued after December 16, 1933, which shall not in any event be subject to any liability to the depositors, or any other creditor thereof."

MARYLAND. Constitutional amendment was adopted at election on November 3, 1936, removing provision for double liability. Chapter 81, laws of 1937, effective March 22, 1937, adds section 72A to Article 11 of code and provides that the double liability imposed by section 72, Article 11, Maryland

(CONTINUED ON PAGE 6)

Double Liability

(Continued from page 5)

Code (1924), shall not apply to stock originally issued after November 23, 1936; that responsibility shall cease July 1, 1937, on "all outstanding stock issued by any bank or trust company" doing business on that date which has given three months' notice by publication prior thereto, and shall certify such publication to the Bank Commissioner. In cases where such notice has not been given, the repeal will be effective as of date three months subsequent to publication, if bank or trust company is doing business on that date. In event of termination of individual liability, banks shall transfer 10 per cent of net earnings to surplus until it shall equal capital.

Massachusetts. Double liability provisions imposed by statute were amended in 1934 so that the liability imposed by section 24 of chapter 172 of the General Laws of Massachusetts (1932) should not apply with respect to shares of common stock issued by such corporation after June 1, 1934. Chapter 248 of the laws of 1937, approved April 29, 1937, further amended this section by providing that future liability shall cease on July 1, 1938, with respect to all shares issued by any such corporation transacting business on July 1, 1938, provided that six months' prior notice by publication be given in city or town where main office is situated and where corporation has a branch office. Where such notice is not given, then liability shall cease on date six months subsequent to publication. Existing liability on any contract, debt or engagement prior to termination date shall not cease, "if prior to such date, the other party thereto either has begun legal proceedings to enforce such contract, debt or engagement *or had no legal right to demand performance or payment thereof*."

Michigan. Double liability imposed by statute was under Act No. 270 of 1933 made inapplicable to stock issued after July 21, 1933. Under Act No. 139 of the Laws of 1935, approved June 4, 1935, for banks organized under section 48 liability ceased on effective date (June 4, 1935) on all shares issued prior to July 21, 1933, if bank was transacting business on June 4, 1935; such liability immediately ceases as to all deposits made and as to all who become creditors after effective date (June 4, 1935), but as to depositors and creditors becoming such prior to effective date, such liability ceases on consent of depositors and creditors, and in any event on July 1, 1937, unless depositor or creditor files written dissent with bank. Copy of law to be posted in bank thirty days prior to July 1, 1937.

Minnesota. Double liability is provided for by constitution Article X, section 3, as amended in 1930, and by section 7669 of Mason's Minnesota Statutes (1927).

Mississippi. Double liability provided by statute does not apply to banks organized after April 2, 1934, nor to banks open for business on that date, provided bank is member of F.D.I.C., or other similar U. S. agency.

Missouri. Liability has always been single under constitution.

Montana. Statutory double liability provisions were continued in act becoming effective March 12, 1935. This act contains the following provision, "Provided, however, that the provisions of this section shall not impose any liability on any stockholder of a bank which is a member of the F.D.I.C."

Nebraska. Double liability provided for both in constitution and by statute. Proposed repeal of constitutional provision was rejected in November 1936. Bill No. 262, approved May 13, 1937 provides for resubmission at election in November 1938.

Nevada. Single liability provided for by statute through amendment effective March 28, 1933.

New Hampshire. Double liability imposed in chapter 264, section 10, of the Public Laws of New Hampshire, by Act of 1911, was not applicable to banks and trust companies in business on January 1, 1911. House Bill 430, effective May 12, 1937, amending said section, exempts banks and trust companies organized subsequent to June 1, 1937, and provides that double liability imposed by the section on stockholders of banks and trust companies, or imposed on stockholders or special depositors of a guaranty fund by similar provisions in any charter of any similar corporation, including any savings bank or guaranty savings bank, shall cease with respect to the stockholders or special depositors of any corporation giving six months' prior notice by publication, as provided.

New Jersey. Liability has always been single. There are no constitutional or statutory provisions relating to bank stockholders' liability.

New Mexico. Double liability provisions were repealed by act approved February 25, 1935.

New York. Constitutional provision repealed in election of November 1935, effective January 1, 1936. Statutory pro-

(Continued on page 9)

Double Liability

(CONTINUED FROM PAGE 6)

visions repealed as to shares originally issued after June 1, 1936. Responsibility ceases on all outstanding stock on July 1, 1937, if on that date the bank is transacting business and has given six months' notice prior thereto of termination of such liability. In cases where such notice has not been given then repeal will be effective as of the date six months subsequent to publication if bank is transacting business on said date. C. 619, effective June 30, 1937.

NORTH CAROLINA. Double liability provided by section 219(a) of North Carolina Code (1935) ceased on July 1, 1935. Section 219(f), however, provides that when capital is impaired and stock sold the owner is liable for any deficiency in assessment made.

NORTH DAKOTA. Double liability under H.B. No. 189, approved March 16, 1937, shall cease July 1, 1939, as to any state banking association transacting business on that date, provided notice is given by publication once in each of four weeks not less than six months prior thereto of proposed termination. If any banking association fails to give such notice, such liability may be terminated as of date six months subsequent to publication in same manner. (Shares in trust companies in North Dakota have never been subject to double liability.)

OHIO. The liability under the provisions of the constitution, as amended November 3, 1936, is single. Article 13, section 3, now reads: "In no case shall any stockholder be individually liable otherwise than for the unpaid stock owned by him or her." This provision becomes effective July 1, 1937. The constitutional provisions prevailing, it has evidently been deemed unnecessary to repeal the double liability provisions under the Ohio Code, section 710-75.

OKLAHOMA. Double liability is continued by section 19 of the "New Banking Code," H.B. No. 124, which became effective April 28, 1937. According to provisions of section 20, liability does not apply to shares of banks issued after that date. On July 1, 1937, additional liability ceases with respect to all shares issued by any bank transacting business at that time, provided three months' notice by publication has been given of proposed termination. Proof of such publication shall be furnished Bank Commissioner who shall issue certificate showing compliance with law. If any bank fails to give such notice of

termination of liability, it may be accomplished as of date three months subsequent to publication. It is further provided that such exemption shall only apply to shareholders of banks which are members of F.D.I.C., and only for as long as they remain members. Such provision shall not be effective in event F.D.I.C. is dissolved or becomes insolvent. Provisions of section shall apply to any trust company organization or banking business in the state.

OREGON. Double liability is imposed by the constitution. S. J. Res. No. 7, adopted February 26, 1937 proposes a constitutional amendment to read as follows: "The stockholders of all corporations and joint stock companies shall be liable for the indebtedness of said corporation to the amount of their stock subscribed and unpaid, and no more," and provides for submission at the next election for approval.

PENNSYLVANIA. Double liability is provided for by statute. Act of May 15, 1933, as amended by Act of April 24, 1935, provides that as to deposits in and claims outstanding against banks, bank and trust companies, or trust companies on July 3, 1933, liability shall be as heretofore provided until terminated as herein provided. As to deposits made or claims arising after said date, liability of common stockholders shall be only to extent of percentage of par value of stock by which unimpaired surplus of such institutions falls short of 100 per cent of common capital. If, at said date, unimpaired surplus equals aggregate par value of common capital, the liability of shareholders shall cease. Shareholders of such institutions incorporated under act shall not be subject to any liability to depositors or other creditors.

RHODE ISLAND. Single liability provided for by statute. Stockholders liable only for amount unpaid on stock.

SOUTH CAROLINA. Constitutional amendment eliminating double liability was ratified by Act No. 28 of 1935, which became effective February 14, 1935. Act No. 37 of 1935, effective February 21, 1935, repealed provisions of section 7868 of the Code of 1932, except as to banks adjudged insolvent before February 21, 1935. Section 7868 provided for single liability to creditors of insolvent banks and for double liability to depositors.

SOUTH DAKOTA. Double liability imposed both by constitution, as amended November 3, 1936, and statute, as amended, with the following exception: "If the shareholders and stockholders of any national banking corporation shall be exempt from liability by federal

law then and in that event the liability upon shareholders and stockholders of state banking corporations herein imposed shall not be operative, in the event that such state banking corporation has membership in the Federal Deposit Insurance Corporation."

TENNESSEE. Statutory liability has always been single, except that it is provided by section 3892 of the General statutes that stockholders may bind themselves in charter for security of depositors to double liability.

TEXAS. Double liability provided for both in constitution and by statute. S. J. Res. No. 9, approved March 25, 1937, provides for an election on fourth Monday in August 1937, to determine whether the constitution should be amended to eliminate double liability. S.B. No. 158, approved April 29, 1937, effective if and when S. J. Res. No. 9 shall have been adopted as an amendment to the constitution, amends section 535 of Title 16 of the Texas statutes by omitting the provision for double liability.

UTAH. Double liability provided for both in constitution and by statute.

VERMONT. Double liability provided for by section 6810 of the Public Laws of Vermont (1933) on stockholders of trust companies, except "that the provisions of this section shall not apply to preferred stock or to stock issued in the organization of new banks or in reorganization of existing banks [on March 24, 1933] unless the articles of association so require."

VIRGINIA. Liability has always been single. There are no constitutional or statutory provisions.

WASHINGTON. Double liability provided for both in constitution and by statute.

WEST VIRGINIA. Double liability is provided for both in constitution and by statute. H.B. No. 59, in effect May 17, 1937, provides for submission at the next general election in 1938 of proposed amendment to Article 11, section 6, of the constitution to provide that, "The legislature may provide by general law for the creation, organization and regulation of banking institutions." The section now provides for double liability of bank stockholders in addition to the power given the legislature to provide for a general banking law.

WISCONSIN. Double liability provided for by statute, except that provisions do not apply to holders of shares issued after July 16, 1935, by an insured bank. Double liability shall apply in event bank ceases to be insured in so far as deposits are received after

(CONTINUED ON PAGE 13)

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of BANKING, will be available to subscribers after July 15, on request.

Double Liability

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termination of insured status. Liability of shareholders of stock issued prior to July 16, 1935, by insured bank shall be that: "provided for in any act that may be enacted by the congress governing the liability of holders of shares of stock issued by national banks prior to June 16, 1933; but when any such bank ceases to be a member of such fund or ceases to be such an insured bank, the provisions of subsection (1) [double liability provision] shall apply to all such stockholders for the benefit of deposits received after the termination of the insured status of such bank."

WYOMING. Double liability is provided for by statute. Chapter 42 of laws of 1937, approved February 16, 1937, however, provides that additional liability imposed by sections 10-508 and 10-509 on shareholders of banks, savings associations, loan and trust companies, and trust companies shall not apply to such shareholders in such institutions from and after July 1, 1937; provided, not less than 60 days prior to July 1, 1937, such institutions shall commence publication of a notice of prospective termination of such liability. Notice shall be published once a week for four consecutive weeks. Proof of publication shall be filed with state examiner prior to July 1, 1937. Act applies only to institutions whose deposits are guaranteed by F.D.I.C., and shall not apply to such as have been declared insolvent or taken over by state examiner prior to July 1, 1937. Additional liability shall apply to those institutions not complying with act in time limited.

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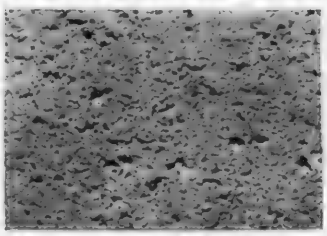

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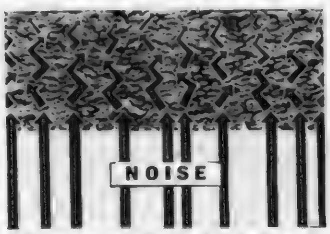

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BANKING
JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

JULY
1937

JULY

1st	1937	$86,000,000 in R.F.C. 2% Series H notes payable.
		Double liability on all stock of natl. bks ends for those institutions which have advertised 6 mos. advance notice of this change.
	1931	Assn. against Prohibition announced natl. deficit of $906,000,000 could be wiped out by legalizing liquor.
		Pres. Hoover proclaimed 1-yr. moratorium on inter-governmental debts.
	1908	1st issue of this magazine.
	1866	Act taxing state bk. notes 10% became effective.
2nd	1937	1st commencement of the Grad. School of Banking.
	1935	U. S. Gov. deficit for yr. ended June 30 was $3,575,357,963; pub. debt reached all-time peak of $28,700,892,624; receipts exceeded Pres. budget estimate.
	1932	F. D. Roosevelt and J. N. Garner nom. by the Dem. Party for Pres. and V. P. resp.
3rd	1934	Estab. of Bk. of Canada authorized.
	1933	Pres. Roosevelt sent a message to the World Econ. Conf., saying that foreign exchange stabilization would be "a catastrophe amounting to a world tragedy."
4th	1872	Birth of Calvin Coolidge.
	1776	Declaration of Independence signed.
5th	1933	N. Y. Commod. Exch., Inc., formed by the merger of N. Y. Hide Exch., Natl. Metal Exch., Rubber Exch. and Natl. Raw Silk Exch., opens.
5th	1932	Pres. Hoover signed resolution for distribution by Red Cross of Fed. Farm Bd. wheat, cotton.
6th	1934	Franklin MacVeaugh, Secy. of the Treas. under Pres. Taft, died.
7th	1933	Copper sells at 9c a lb., N. Y., the high point for the yr.
	1898	Hawaii annexed.
8th	1932	All stocks used in Dow-Jones averages drop to yr's. low prices, the industrials to $41.22, the railroads to $13.23 and the pub. utilities to $16.53.
	1933	Cotton textile code, the 1st one under the Natl. Indus. Recov. Act approved by Pres.
10th	1919	Versailles Treaty was sent to the Senate.
	1832	Pres. Jackson vetoed act chartering 2nd Bk. of the U. S.
11th	1934	All non-code industries ordered to complete codes within 30 days.
	1862	Sam Hooper of Mass. introduced into Congress a bill providing for a natl. banking system.
	1767	Birth of John Quincy Adams.
14th	1936	Govs. of Fed. Res. Sys. increase res. requirements of mem. bks. 50% effective Aug. 15.
16th	1935	A.A.A. processing taxes held unconstitutional by U. S. Cir. Ct. of Ap. at Boston in Hoosac Mills case.
17th	1933	A.A.A. announces over 10,000,000 acres of cotton to be abandoned.
	1916	The Fed. Farm Loan Bk. Act passed.
18th	1936	Rebellion in Spain commences under leadership of Gen. Franco.
19th	1930	Natl. budget 209 million more than previous yr. Pres. requests rigid economy because of depression.
20th	1937	Fed. tax returns of amounts withheld at source of payments of interest on corporate obligations for June due today.
	1936	Internal Rev. Bureau rules that natl. bks. are exempt from soc. security taxes.
	1933	"Blanket" code of competition for all bus. and indus. approved by Pres. Roosevelt.
	1931	24-hr. air service between Newark and Los Angeles.
21st	1933	Chic. Brd. of Trade suspends for 2 days dealings in grain and provisions futures following sharp break.
	1932	Pres. Hoover signs $2,122,000,000 unemployment and farm relief bill broadening powers of R.F.C.
22nd	1932	Pres. Hoover signs Fed. Home Loan Bk. Act. Franklin W. Fort named chmn.
23rd	1933	Silver agreement, providing for 4-yr. silver control with certain sales restrictions for India and Spain, signed by 9 nations at World Econ. Conf.
	1930	Glenn H. Curtiss, inventor of Curtiss plane, died.
24th	1929	Pres. Hoover proclaimed the Kellogg Anti-War Pact in effect.
25th	1914	Gen. mobilization starts throughout Europe.
26th	1935	Senate passed without a record vote and sent to conf. the Banking Act of 1935 in the form unanimously approved by the Senate Banking and Cur. Comm.
27th	1933	Registration of new sec. offerings under Sec. Act of 1933 operative.
	1932	Brokers' loans as reported by Fed. Res. mem. bks. reach $331,000,000, the low point of the yr.
28th	1932	U. S. War Dept. expels Bonus Expeditionary Force from Wash.
31st	1937	Last day to file Fed. capital stock tax return and pay tax.
	1935	Statement of Fed. corporations and agencies by Treas., showed loans of $2,299,837,099 financed wholly from Gov. funds and $5,837,561,545 partly from Gov. funds, a total of $8,147,398,644.
	1934	F.D.I.C. set up a separate fund for mutual svgs. bks., with 68 members having $1,382,350,396 of deposits.
	1931	Wheat touches lowest point in the history of Chi. Board of Tr. at 48c per bu.
	1914	The threat of war in Europe closed the stock exch. Remained closed several months.

How to Judge Warehouse Receipts

By JOHN H. FREDERICK

AS a result of the increasing use of stored merchandise as collateral, bankers are called upon to judge the value of public warehouse receipts as collateral for loans.

Public warehouse receipts for goods held in storage are of two types: Those representing goods actually in the warehouse issuing the receipts, and those representing goods still on the premises of the producer or other owner, but in the custody of a public warehouseman. Arrangements of this sort are known as field warehousing or custodian warehousing.

The banker who is offered a warehouse receipt issued by a public warehouseman as collateral for a loan should consider various factors, varying with the individual case. He should, however, in nearly all cases seek answers to such questions as these in determining the value of a receipt:

17 QUESTIONS TO ASK

IS the warehouse suitable for storing the particular merchandise or product represented by the receipt? How responsible is the warehouseman signing the receipt? What is his reputation in the community? Is he a member of the American Warehousemen's Association or other recognized group of warehouses? Under what authority of law is the receipt issued?

Does the information on the receipt give the banker a concise yet comprehensive description of the goods stored, thus enabling him to form an opinion of their fair market value?

What are the terms of the receipt in general, with particular reference to its negotiability? Is there bonded responsibility back of the receipt? If so, by whom is the bond written? For whose benefit is the bond written? With whom is the bond lodged? Under what conditions may the bond be realized upon by the holder of the warehouse receipt? What action is necessary on the part of the receipt-holder if he desires to realize on the bond?

Does the warehouse receipt represent a bona fide relationship of bailor and bailee between the storer and the warehouseman, and one under which the warehouseman and his representatives are completely and wholly independent of the owner of the goods covered by the warehouse receipt?

When warehouse receipts represent goods still on the premises of the owner or storer, what is the character and extent of disinterested supervision exercised over such a field warehouse? Is the warehouseman's local custodian independent of the owner of the goods? Is the custodian competent to care properly for the merchandise or products while in storage?

Is each lot of goods covered by a receipt, unless the goods are stored on a fungible basis, so segregated from goods belonging to other storers, as well as other goods of the owner, and so marked as to permit ready identification on the basis of the information appearing on the warehouse receipt?

Two of these questions deserve special thought in deciding the value of particular warehouse receipts as collateral. The first is whether the warehouse receipt contains sufficient information to enable anyone to whom it is offered for collateral purposes to form an opinion of the fair value of the products concerned, and to identify them. A receipt conveying no information as to the quantity, quality, grade, or condition of the products or goods covered, or that fails to state what the product actually is, does not contain sufficient information for a banker or any other prospective lender.

Public warehouse receipts showing that the warehouseman received a certain number of cases, bales, or packages "said to contain" certain goods or products, give no indication of the value of the articles represented by the receipt. Also, receipts which merely state that the warehouseman received containers, "contents unknown", are nothing but an attempt by the warehouseman to escape liability so far as the commodity involved is concerned, and should have no appeal to a banker as collateral.

The other question requiring particular attention deals with the creation of a completely disinterested custodianship between the storer and the warehouseman. In other words, there must plainly be a bona fide relationship of bailor and bailee between the party storing the goods or merchandise and the warehouseman issuing the receipt.

A disinterested custody of the stored products is only achieved when the warehouseman is wholly independent of the storer. It is important to note that the receipts of private or subsidiary warehouses which may be established by manufacturers or other distributors cannot be considered as meeting this requirement. Too many "dummy" warehouses or subsidiary warehouse companies have been set up by borrowers in an endeavor to secure loans on stored merchandise without the necessity of paying a public warehouseman.

PRODUCTS REMAINING ON OWNER'S PREMISES

THE relationship of bailor and bailee is particularly important in connection with warehouse receipts signed by a warehouseman but covering products which remain on the premises of the owner or pledgor. Receipts of this nature are used in field or custodian warehousing arrangements usually arising out of a storer's need for obtaining loans on his stored products. These products could be placed in a credit or collateral position, of course, by storing them in a public warehouse apart from the owner's premises; but this may not be done for any one of a number of reasons.

In evaluating public warehouse receipts as collateral the banker should not be led astray by the fact that a statement may appear thereon that they are "issued in conformity with the Uniform Warehouse Receipts Act". This act has no administrative provisions as it is only concerned with the form and provisions of uniform receipts. Even when a warehouse receipt complies in every respect with this Act it leaves much to be desired from the standpoint of judging its value as collateral. Such a receipt may fail to give information to a prospective lender as to what the stored product is, or what its condition, quality, quantity, or value may be.

Post-Gold England

By F. BRADSHAW MAKIN

THE British Exchange Equalization Account was instituted at a time when conditions were favorable, for by 1932 confidence had been re-established and foreign funds were again being placed in London.

The actual formation of the account was a straightforward arrangement. First, it was necessary for the British authorities to make clear that any speculation in sterling was to be suppressed by legitimate methods. With this object in view the government announced that the account was to be financed by the issue to it of 150 million sterling ($729,000,000) of treasury bills. This announcement to the effect that the British government was prepared to support sterling so extensively showed the speculator that the matter was to be treated with seriousness.

Before any exchange account can operate it must be in a position to buy and sell foreign currency. The issue of the treasury bills gave the account the power to acquire sterling by the simple expedient of selling the bills on the market in exchange for sterling. The returning confidence, bringing in its train foreign deposits to London, gave the opportunity to obtain foreign currency in exchange for the acquired sterling, and thus at an early date in its career the British Exchange Account acquired two very essential assets, viz., sterling and foreign currency and/or gold.

The financing of the account by means of treasury bills appears to have given rise to many false notions respecting the financing arrangements, and some talk of inflation was heard not only abroad but also in Britain. An examination of the facts shows the soundness and simplicity of the arrangements. The issue of treasury bills is in no way an inflationary step, as no funds are "created". Until such time as the account sells its bills on the market there is no actual borrowing; when the account sells its bills it obtains its resources from the market and not by some fancied form of "creation". The account could sell its bills as and when desired, and so obtain sterling which it could convert into gold or foreign exchange as circumstances warranted.

POST-GOLD AMERICA

IT is interesting to compare the method of instituting the British Exchange Account with that of the American Exchange Stabilization Fund. The American fund, unlike the British account, was not provided with a supply of Treasury bills, though Treasury bills have since been specially allotted to the fund. The omission to issue Treasury bills when the fund was set up prevented the fund operating as it was intended, and in all probability added considerably to the difficulties of those in control. Had an issue of bills been made initially, it is doubtful whether the furore against "hot money" would have been evident late in 1936.

The issue of Treasury bills to the fund has brought it more into line with the British account, for any increase in member bank deposits arising as a result of foreign balance deposits will be counterbalanced by an increase, not in their cash, but in their holdings of Government securities.

The actual operation of the British account was explained in BANKING'S April article "How Britain Uses Treasury Bills".

As an hypothetical case, suppose American depositors in London withdraw balances on a large scale. The resultant pressure on sterling would be eased by the action of the account selling dollars or gold and buying sterling. Probably support would also be arranged with the American fund under the terms of the tripartite agreement concluded in 1936. If, however, the withdrawal of balances was a feature of normal commercial activity, then the account would not support sterling but would allow the exchanges to move without interference, unless it was otherwise decided by the controllers of the respective exchange funds.

COMMENT ON A CRITICISM

THE British account was criticized early last year and was accused of increasing the banking difficulties of the United States. To the mind of the writer much of this criticism was misguided and arose from an incomplete knowledge of the facts. In the early months of 1933 the American banking position caused a minor flight from the dollar and an unusually large movement of funds to London. The British account did undoubtedly support the dollar by selling sterling and in so doing obtained an addition to its gold holdings. It was the loss of gold by the United States which was primarily responsible for the adverse criticism, but this loss of gold was a reflex of American conditions, and it was American conditions which were the main cause of deflation and not the loss of gold. That is how the situation appeared to the observer in Britain.

In the article previously referred to, mention was made of the effect of an outflow of gold under present conditions in Britain, so a few words on the question of the effect of a gold influx may be given by way of conclusion.

A gold influx may arise as a result of foreign balances being placed on deposit in London, causing a supply of foreign currency to be offered on the market by the joint stock banks, the actual currency being taken up by the account. The account, in buying the foreign currency, must give sterling in exchange, and in doing so sells part of its holding of treasury bills. The effect of the sale of treasury bills by the account results in an increase in the bill holdings and/or market loans of the joint stock banks, an increase which approximates the increase in their deposits resultant on foreign balances being placed in London.

The net effect of the influx is a contraction of the credit base, or in other words a reduction in the ratio of cash to deposits on the part of the joint stock banks. If the controllers of the account wish to counteract the reduction in the credit base they can do so by the sale of gold to the Bank of England. Thus we get the unusual position of a gold influx reducing the basis of credit unless compensatory action is instituted, truly a changed technique to that obtaining under the old gold standard.

The Economic Functions of a Bank

AMONG the new winds of doctrine that blow over the distressed places of the world, the "anti-bank" doctrine is one of the latest and strongest. It fans the face of the Alberta farmer, trying to grow wheat without water—the banks having cut off the rain. It moans in the canyons of the financial district where they refuse a man a loan of a hundred dollars just because he has no collateral—though Heaven knows he'd give you anything he's got and he's not got anything. Most of all, it rages wherever a radical convention sits to frame a political platform and lays down "people's money" and "people's credit" for the very joists of it.

This is a cruel charge. The banker used to be an angel—a little heavy and stout for an angel, perhaps, but still pretty glossy and benevolent. Think of him as he was in Victorian fiction, with his silk hat, his broad black waistcoat, his gold chain and "fob". What a fob was I don't know, but every banker had one. Grave and dignified he was, but he had his kindly moments, too, when he'd drink a glass of old tawney port with you—if you paid for it. There was a general feeling that somehow with his fob and his tawney port and his counting house, the man carried the world on his back: just how, it didn't appear, but he carried it. In those days no one ever accused him of "coining credit", and taking away the "people's birthright".

THE OLD-TIME, SELF-REGULATING WORLD

HIS fall is only a part of the great change as between the happy world of the Adam Smiths and the John Stuart Mills, the world of a hundred years ago. Their world was beautifully regulated. "It runs itself," said a famous Italian Abbé. "And there's money in it," added Adam Smith. "Everybody," he explained, "in seeking his own interest is led by an invisible hand to promote the interest of his fellow men." Property and lots of it, inheritance and plenty of it, merchant princes, aldermen eating turtle soup at banquets and bankers as heavy with gold as a frog full of shot—that was the sort of world to live in!

Then somehow it all began to crumble away, bit by bit, and the people who had been the heroes of the piece became the villains of the play. Somebody discovered that property was "wicked", especially property in land, which carried an "unearned increment"; the "merchant prince" turned into a "bloated capitalist"; a "gentleman" was called a "parasite", and decent people were renamed the "bourgeoisie". It was just like a sort of "transformation scene" on the stage; and up hopped a whole lot of devils from below as the "proletariat chorus". The "honest artisan" turned into a labor delegate and the "deserving poor" lived up to their name and sat and ate the dole.

The latest victim is the banker, and the indictment against him is more bitter than against any of the others. It is claimed not merely that his gains are too large but that he has no right to exist. It is argued that what he does is to use up the privileges and advantages that the people ought to have for themselves. His function, it is claimed, is "anti-social" and the man has got to be abolished, or, as they say in Russia when they knock a peasant on the head with gas-pipe, "liquidated". The banker, in other words, hasn't got a leg to stand on, let alone a fob to dangle over his abdomen.

This is the argument that at first dimly appeared in Marxian Socialism, where it was overshadowed by the larger argument against *all* employers of labor. It ran as a sort of thread through the doctrines and platforms of Populists, Grangers, and Ultra-Progressives. It belonged in the carpet bag of the transient technocrats—who would have measured the banker's value in the physical ergs of his effort. Of late it has risen to a shout in the anti-bank doctrines of Professor Frederick Soddy of Oxford, of Major Douglas of Scotland and all that goes with the new "social credit" school.

The anti-bank doctrine centers round the idea of "coining credit". The notion is that the banker gets something out of nothing; and since that isn't physically possible, he must have taken it out of somebody else's pocket. The argument starts from the very specious and plausible beginning that a bank apparently doesn't *make* anything or *do* anything. It has premises, of course, but they are only to sit in and dangle fobs in. If anybody borrows money they don't ever give him *real* money, not gold and silver as they used to do in the days of Queen Elizabeth. They don't even give him paper money as they used to do in the days of Queen Anne. They've learned a better trick than that. They just take a pen and write a credit in a book, and say, "There you are." Then the man with the credit makes a "deposit"—same figures, same ink—and the banker has "created" ten thousand dollars worth of credit in ten minutes and goes out to a ten dollar lunch with something wearing a bunch of five dollar violets, bought out of the transaction. What a life!

The thing would never have been given away if the banks hadn't started—or the Government hadn't compelled them—to publish accounts. Even the simplest mind would be struck by the queer similarity of loans on one side of the account and deposits on the other! Something fishy about that!

In the old days when the banker went into his counting house and counted, and you could hear him, through the window, counting, "a million and one, a million and two, a million and three"—it sounded as impressive as a prayer. But write it all down and the secret is out. It didn't take a brilliant man like Professor Frederick Soddy of Oxford ten years to see that the whole thing was a sell; or a man as hard-headed as Major Douglas, a Scottish engineer, to see that it was just social robbery.

Major Douglas joins with Soddy in his view of banks and banking. "As the situation stands at present," he says, "the banker is in a unique position. He is probably the only known instance of the possibility of lending something without parting with anything, and making a profit on the transaction, obtaining in the first instance his commodity free." The best thing that Douglas can say for the banker is: "There is no suggestion that bankers, as human beings, are in the main actuated by any anti-social policy." No, the idea seems to be that the banker, as soon as he enters his office, ceases to be a human being and starts to growl. The inter-

By STEPHEN LEACOCK

esting problem with Douglas is: Why is a banker not worse? What holds him back? "It may be asked," he says, "why a bank only pays a dividend of 25 per cent or so." The answer is simple. Their real earnings are measured by the control over industry which they acquire—earnings so rapid that in a few years the control will be absolute if not checked. The amount distributed in dividends is, or could be, any desired dividend of "this capital control".

Now the whole argument has such a false air of plausibility to it, is so surprising, so like the exposure of a conjuring trick that many people are carried away with it breathless. And yet I venture to say—in fact I say it—that there is absolutely nothing to it. The banker doesn't "coin credit" for himself, can't "make money" for himself, or do any of the amazing things described by Major Douglas. All that he does is to earn, and deserve, a peculiar kind of gain called "interest" in return for a peculiar kind of social service. The whole thing is just as legitimate as getting money for playing the saxophone or selling groceries or driving a street car.

WHAT'S THE MATTER WITH INTEREST?

LOOK back into the history of it. We say the banker earns "interest". The word is a tainted word that has come down the centuries with a dead cat tied to it, the dead cat of "usury". The last means a forced bargain, based on necessity, like selling bread to a starving man, and not corresponding to profit made. The ancient world knew little of real interest and much of usury and hence the denunciation of interest by Aristotle and by the Fathers of the Church.

But the two things sifted out from one another as the world of modern commerce and industry grew up—say from 1500 A.D. onwards—when a man could borrow a pound and gladly give a shilling for a year's use of it, having made ten times as much for himself.

So commercial interest rose and with it banking. At first bankers were people who gathered up a "bank" or "bunch" of money to lend to the government; then people who gathered it and lent it commercially. Early bankers actually kept coin, stored it for other people at a small charge, stored valuables, plate and jewels also, and made loans of coin for "adventurers" in trade. In England the use of the word "goldsmith" long obscured their real functions.

With the rising commercial world there grew up, in the eighteenth century, the use of all kinds of paper documents for handling money, receipts and orders and transfers, and the things called checks. It was found that these, being light and portable, were "better than gold". Hence bankers could substitute documents for coin. Since it wouldn't happen that all the banker's "depositors" (people who left coin with him) would want it at the same time, he could lend a large part, more than half of what he actually held, and still answer all calls on him for ready coin. Hence the system of checks, deposits, loans and reserves appeared in England fully developed by the time of Adam Smith and in the half century between his days and those of Mill.

All the economists of the time looked on banking and bank money as a wonderful new social mechanism—a "waggon-way through the air," said Adam Smith. As they saw it, the banker was a productive agent, like a central labor exchange, or, if one will, a central telephone station. Some people have money that they can't use. One may think of it as actual coin, or as a claim for physical goods. The argument is the same either way. Other people have opportunities that they can't use for lack of money. Left to themselves these two sets of people would chase one another round the block. But put the banker into the picture and it's all changed. All the unused money turns into a usable general fund. All the valid opportunities can now be used to the full extent of the available means of production. In other words, the banker is helping to direct human labor to the production of commodities most needed.

So ran the time honored argument. It seems to me that in the main it is sound. Obviously all kinds of minor considerations come in: the question of regulation to prevent fraud; of the issue of bank money and how to guarantee the public against unwise banking as well as dishonest. But all that is beside the present purpose. The essence of the thing is there.

AN INTERESTING EXPERIMENT TO TRY

NOW take the "coining credit" argument. The banker can coin himself all the credit he likes? No, he can't—not a cent. Try it yourself. Go into a room by yourself with a new empty ledger and write yourself in a deposit of a million dollars, and sit and chuckle over it! Are you any richer? Not a particle—just a step nearer some rest home. The argument is drawn in extreme terms because, as Plato said, "it is easier to read in capital letters." Now suppose that while you are sitting crying over your new ledger because you can't coin yourself credit, Smith and Brown and Jones turn up and Jones says, "How would you like to keep our accounts—write down what I lend Smith, what Smith pays Brown and what they both pay me—and if you do we'll give you a little for yourself." Reduced to its lower terms that's all that current accounts mean.

To say it over again in another way. If Jones, who wants to buy machinery comes into the bank to borrow ten thousand dollars, and the bank lends it to him and he gives a check to Brown to pay for the machinery, notice that it is Jones, not the *banker* who gets the machinery. And when Brown, having deposited the check for the machinery, presently gets paid by Jones with a check on the bank, the banker has to make good the check. So that as far as the banker is concerned, it all cancels out; except that the banker is paid (in real money if he wants it, or in an order on some other bank) a certain amount called interest. And twist it as you will, high or low, up or down, that's all he gets. The notion as expressed by Major Douglas, that if he likes he can take it all, means on analysis, that if he likes he can take all Brown's machinery and Jones' goods, which is absurd.

It would be drifting onto other ground to start to ask whether the government couldn't take over the banks' functions and itself make the loans. That would shift from one subject to another. Personally I don't think it could. It is not the kind of thing that a government can do—to make loans to individuals selecting which one will be able and willing to pay and which not. Government banking for individuals would just be a welter of favoritism and nepotism and syllogism, anything ending in "ism".

Indeed, the more I think of what the banker does and his function in society, the more I feel like giving him back his silk hat, and his gold watch and his fob. Here, take it!

Legal Investment Standards Plus

By BANCROFT MITCHELL

THE following comments on the standards used in New York State for determining legal electric and gas company bonds will attempt to indicate some reasons why legal lists, however commendable their object and however helpful, do not seem to be altogether satisfactory substitutes for independent research and analysis by bankers. Where individual issues are mentioned in the text, such citations are for purposes of illustration only, and are not to be construed as recommendations. For the sake of brevity, summaries of the contents of some provisions of the legal requirements are followed by short comments.

Provision: Seventy-five per cent of revenues must come from electricity and gas, and not more than 15 per cent of the balance from any one source.

Comment: The latter clause is entirely commendable, as it is aimed at derivation of over 15 per cent of revenues from traction. However, the former clause makes no distinction between electric and gas companies. Perhaps some recognition should be given to the unimpressive trend in the manufactured gas business, due in part to such fundamental factors as encroachment of cheap electricity on the manufactured gas load, and to the greatly increased thermal efficiency of modern gas appliances. This clause places an all-electric company bond in the same category as an all-gas company bond.

Provision: In territory where it derives at least 75 per cent of its revenues, a company must have permits that are either indeterminate, extend five years beyond maturity of the bonds, or are subject to a regulatory body.

Comment: It is suggested that, in the last analysis, a company's safeguard against municipal competition is not an indeterminate franchise, since such permits are in most cases *non-exclusive* against municipal competition, and since municipal operation in many states is not subject to approval of the regulatory body (witness Tennessee Electric Power, which has a perpetual franchise in Chattanooga), but public opinion and public satisfaction with rates and service.

Provision: Net earnings must be twice interest requirements.

Comment: This is probably the most important provision. However, it should be noted that "net earnings", as here used, are before deduction of income taxes, and that fixed charges do not include amortization of bond discount. These differences from common practice are not particularly important, in view of the demonstrated stability of the industry. However, the absence of a standard of depreciation charges (such as 2 per cent of gross property, or 15 per cent of revenues in combination with maintenance) seems important, in view of the insufficiency of such charges in many systems.

Provision: Revenues must be $1,000,000 or more annually.

Comment: From a strictly conservative standpoint, this limit is probably too small, permitting investment in communities too small to be industrially very important or relatively well diversified. The writer would prefer to sacrifice some statistical strength, if necessary, for representation in more important communities and believes a desirable limit is about $5,000,000 gross, a minimum about $3,000,000.

Provision: The company, during five preceding years, must have earned available for dividends an amount equal to 4 per cent on two-thirds of its funded debt.

Comment: This odd provision seems to have as its object the establishment of some standard of income remaining after fixed charges, or a "margin of safety". It works out that, if a company's fixed charges are equivalent to 5 per cent on its debt, this provision would require net income to be 2.6 per cent on the debt—in other words, fixed charges would be covered about 1.5 times. It is obvious, therefore, that this provision adds nothing to the provision that interest charges be covered twice. In the opinion of the writer, such a "margin of safety" provision, to be effective, must relate income after fixed charges (net income) to revenues. Such a ratio will show by what percentage revenues can decline before fixed charges will fail to be covered (other things equal).

MORTGAGE VS. DEBENTURE

Provision: A bond must be a mortgage bond.

Comment: The writer has always felt that if total debt is low according to such standards as debt to fair property value and times fixed charges covered, and if there are effective limitations in the mortgage indenture against excessive increase in debt, there should not be discrimination against operating company debentures. For example, the debentures of Connecticut Light & Power and of Southern California Edison might be considered superior to a large number of mortgage issues of weaker companies. In fact, some preferred issues of strongly situated companies are considered by analysts superior to many bonds.

Provision: Subsidiaries may be included in earnings if all their mortgage bonds and controlling interests in their stocks are pledged as part security for the parent debt.

Comment: If debentures were otherwise allowed, this provision would nevertheless outlaw such debentures as those of American Telephone & Telegraph and Consolidated Edison. It is suggested that qualifications might be justified which would admit cases such as American Telephone where subsidiary debt is extremely low, where there are indenture restrictions against excessive bonding of subsidiaries, and where overall debt is conservative.

Provision: Mortgage debt should not be in excess of 60 per cent of the value of owned physical property *per the books* of the company.

Comment: The effectiveness of the provision is limited to some extent by the apparent use of the gross property figure (before depreciation reserve), but to a greater extent by the use of property book value. The company whose property is written up is more likely to meet the requirements than one whose property is carried at a conservative value. This field is left wide open to the analyst.

Deposits Up but Not Profits

By E. S. WOOLLEY

AN interesting study is provided by the "application of funds statement" which is shown below. This statement was prepared from the published figures of a small bank covering the period from June 30, 1933, to March 31, 1937. During this time the deposits increased from $565,000 to over $1,000,000, a growth of 84 per cent. Yet during the same period the surplus and undivided profits decreased by $12,482.39.

The bank retired $154,000 of bills payable, but this was accomplished by liquidating assets and borrowing money in the form of capital debentures from the R.F.C. The increase of the debentures and deposits together totaled $526,458.41, while the total resources increased only $255,631.42. This means that assets were liquidated to the extent of $270,-826.99, which is more than sufficient to take care of the bills payable and close out reserves and other liabilities.

As these figures were taken entirely from the statements published in compliance with the law, there is no way of knowing the actual value of the assets shown. There might be an appreciation or depreciation in such assets. On March 31, 1937, Federal and other bonds amounted to $438,940.64 and "other real estate" to $48,615.01 at the book figures.

The significant fact is that deposits increased 84 per cent in three and one-half years, yet the depositors had almost twice as much protection, as represented by stockholders' funds, at the beginning of the period as at the end.

Undoubtedly, this bank considered the remarkable increase in deposits indicative of rapid progress. But was it? That morgue of business, the bankruptcy court, is full of the records of those concerns which harbored the same belief. No business, much less banking, can long exist today unless it is profitable. There soon comes a time when stockholders, no matter how philanthropically inclined, become tired of putting money into a losing venture.

The increase of deposits is necessary to banks. Growth is something which is always to be desired if that growth is on a solid foundation. Any business can grow for a certain length of time if it follows the practice of selling its service or commodity below its actual cost.

From the customer's point of view there is a very decided difference between purchasing some commodity at a price which is known to be below its actual cost and the buying of a banking service at "bargain" rates. In the case of the commodity, the customer has the asset, and what happens to the seller is no concern of his. His interest in the seller ceases with his purchase. But it is far different in the case of the customer of a bank. Here the customer's interest does not cease with the purchase. His interests are inevitably tied up with the continuing security of the seller.

Bank customers must recognize that, in order for their banks to build the strong financial structure so necessary to service the deposits properly, they must earn sufficient profits to build up a surplus and provide for future contingencies. This can be done only by profitable banks.

SOURCE OF FUNDS:		
Deposits increase	$476,458.41	
Sale of debentures to R.F.C.	50,000.00	
Total source of funds		$526,458.41
APPLICATION:		
To increase cash on hand and in banks	$ 59,398.22	
To increase U. S. bonds	51,139.39	
To increase other bonds	16,372.25	
To increase Federal Reserve bank stocks	900.00	
To increase mortgages	93,887.43	
To increase loans and discounts	2,014.11	
To increase other real estate	39,923.91	
Total to increase assets		$263,635.31
To retire bills payable	$154,293.85	
To close out reserves (net)	96,046.86	
Total to retire liabilities		$250,340.71
To absorb operating losses		12,482.39
Total funds provided as above		$526,458.41

	Assets Increase; Liabilities Decrease
Cash on hand and in banks	$ 59,398.22
U. S. bonds	51,139.39
Other bonds	16,372.25
Stocks F.R.B.	900.00
Mortgages	93,887.43
Loans and discounts	2,014.11
Other real estate	39,923.91
Total asset increases	$263,635.31
Bills payable	154,293.85
Surplus and undivided profits	12,482.39
Reserves	115,133.16
Total liability decreases	$281,909.40
Total	$545,544.71

	Assets Decrease; Liabilities Increase
Furniture and fixtures	$ 1,420.66
Other assets	6,583.23
Total asset decreases	$ 8,003.89
Deposits	476,458.41
Debentures	50,000.00
Other liabilities	11,082.41
Total liability increases	$537,540.82
Total	$545,544.71

How Indiana Researched

By ROBERT H. MYERS

THE period from 1916–1936 was a hectic one in the banking industry. The country experienced the greatest war of all time, it passed through periods of prosperity and depression, and underwent revisions of financial, social and general economic ideas. The research committee of the Indiana Bankers Association has issued a 1937 report (reviewed on page 3 of this magazine) which covers the banking trends of this 20-year period and suggests a specific plan to be put into effect now.

One of the most interesting chapters in the report deals with the changes in balance sheet items and combinations of items since 1916. While the number of banks has decreased, the average resources per bank have trebled. While loans used to be the major earning assets in Indiana banks, investments now take first place; moreover, Government bonds account for by far the largest part of the increase in security investments of both state and national banks. The increase in Governments held by all banks was 700 per cent during the two decades.

A study of the break-down of loans shows that "other loans", generally considered to constitute commercial loans, have declined to new lows—constituting only 25 per cent of the 1929 figures, and being far below the amount held in 1916. On the other hand, real estate loans have increased until they make up a new high proportion of total loans, indicating a trend that may be regarded with some apprehension in institutions whose deposits are in fact, if not by legal designation, almost wholly payable on demand.

IMPORTANT BANKING CHANGES

THE report devotes some attention to changes in fixed assets, and capital funds and reserves. The changes in the composition of deposits as between time and demand are examined. Considering the current cash position, and taken in connection with the holdings of Government bonds, the theoretical liquidity of Indiana banks as a whole in 1936 exceeded 50 per cent of their total deposit liability.

The Indiana research committee, viewing the various trends, concludes that the current high investment position of banks requires careful watching and a conservative investment policy. It believes that the statistical data showing greatly increased investments (especially Government bonds) and sharply decreased loans (especially commercial loans) indicate a fundamental change in the character of banking operations that may be permanent. These changes, obviously, have a profound effect upon bank net earnings; consequently, earnings and expense trends for the period 1916–1936 were analyzed. A decline of asset earnings is the clearly indicated trend, both because of decreases in loans (relatively high income producers) and the increase in security investments (relatively low income producers), and because of the lower interest rates obtainable on both.

The increased proportion of time deposits held in the average bank had kept interest-paid expenditures at the top of the list of outgo items.

Taxes paid give no indication of relieving the pressure on net earnings. "Other expense" apparently is not yielding to bank management efforts to reduce it. With interest from earning assets accounting for a steadily declining percentage of gross operating earnings, it is increasingly obvious that banks must look to new sources of revenue for profits. The problem of greatest immediate concern to bank management, in the opinion of the research committee, is that of developing new sources of revenue if banking institutions are to continue to operate upon a sound basis. Fees for services are unquestionably the most readily available source of income and the fairest to the customer. It is logical, therefore, that the second part of the report is concerned with "Merchandising Your Bank's Services."

The fair-profit principle of making each department and each transaction pay its own way is advocated.

COST ANALYSIS

THE research committee feels that in most cases it is a good investment to employ the services of a professional organization to analyze bank costs and suggest a schedule of charges and provisions. If that is not done, it recommends following the *Manual for Determining Item Costs*, Booklet No. 15, issued by the Bank Management Commission of the American Bankers Association. It advocates charges neither too high nor too low, but based on actual costs plus a reasonable profit. It proposes a complete merchandising plan, with rates and provisions of various services equitably correlated.

In regard to checking account service, it is recommended that "selling prices" include a legitimate profit over actual costs. The use of a composite or average rate for all items is not recommended, because the expenses caused by some accounts are mainly for checks drawn, the most costly items handled; other accounts deposit large numbers of transit items, but draw few checks; still other accounts deposit many checks on other banks in the same city, the least expensive items handled. The cost ratio between "on us" items, transits and local clearings is recommended to be set at 5 to 3 to 1, if the *Manual* is followed.

The use of the analysis factor sometimes called "desired profit" is *not* recommended. The committee contends that the profit desired should be achieved by adequate "markups" in all item rates and charges for services; by decreasing the earnings credit allowed below the bank's average experience; by increasing the cash reserve deduction beyond the bank's average position; and by the inclusion of an adequate monthly analysis charge for account maintenance.

The committee concedes that to the uninitiated in modern bank merchandising the report may appear to pose some formidable practical problems, but it denies the validity of this objection. Other businesses have "price lists" and "catalogues of services." So in modern banking, the rate and provisions for ordinary services in constant daily use are easily memorized by the bank's staff. For the less frequent transaction, bankers, too, will refer to their "manual".

The Farmer's Banker

By EUGENE P. GUM

THE conservation of our natural resources, an economic issue rapidly becoming political, is out in front and is beginning to receive some of the attention it should have received a century ago. The horse has been stolen but we may lock the barn in time to save the colt. The greatest damage is being sustained through the loss of soil fertility through water and wind erosion. A close study reveals the fact that in this nation we are losing, through erosion, three billion tons of top soil every year—enough to fill a train of freight cars girding the earth 19 times at the equator.

In touching upon this problem I localize the issue, but the conditions are general. Today Oklahoma is alive to its responsibilities in solving this pressing problem. We are attempting to apply what appears to be the correct remedy for water erosion, an appalling task but not as impossible as the pot of gold at the foot of the rainbow. Our first attack of any consequence was made three years ago. While much progress was made the first two years, more terracing has been accomplished within the last nine months than during the 30 years of statehood that preceded. As a result the entire state is terrace-conscious, and we are well on our way to preserve one of the richest top soils in America.

The tenant problem, outside of wind and water erosion, offers the greatest contribution to those forces that cooperate to destroy the fertility of our top soil. This is not an indictment against the tenant farmer and is not a problem peculiar to Oklahoma, for tenants shift from place to place year by year and naturally feel little if any interest in building up the soil. Consequently, they plant the most productive money crop and disregard the value of crop rotation, strip cropping, or the planting of legumes. Immediately we are confronted with the need of (1) correcting the condition of land tenure, placing our farms in the hands of men who will feel the necessity of maintaining and improving the soil, or (2) providing long-time contracts between landlords and tenants, setting up a system of soil conservation and reclamation over a period of years sufficiently long to give the tenant the advantages so obtained as an incentive for the additional labor required.

THE BANKERS' STAKE IN SOIL SAVING

WHY should bankers be interested in this raid upon our most valuable natural resource? I read an article on the front page of a daily paper, a few minutes before writing this, which said: "Why aren't you interested in the protection of your feet? They are the foundation upon which you stand." Banking is the mud sill of a complicated business structure that rests upon agriculture. Land fertility is the foundation upon which we stand and is rapidly being washed from under us. What can we do about it?

The remedy for water erosion seems to be well established. Experimentation has proved that moisture can be controlled and should be retained where it falls. To accomplish this, farms should be terraced, brush dams established, grass and rock outlets constructed, soil building crops properly rotated, contour furrowing encouraged, strip cropping practiced, and the correct legumes planted to prevent leaching. Attention should be given to water conservation and control through the building of well engineered outlets and the proper construction of ponds and lakes. Careful attention should be given to the establishment of a proper balance between forest, grass and plow land by the adoption of a permanent policy.

The problem is so big it can best be attacked by the Government, working in cooperation with the states and such other local agencies as may be set up through a common interest in the successful accomplishment of the task, but it must always be borne in mind that these forces will fail, powerful as they are, if we do not coordinate with them the driving power to be obtained by enlisting the interest and influence of the bankers, business men and farmers.

WHAT OKLAHOMA BANKERS ARE DOING

IN Oklahoma our bankers, working through the agricultural committee of the Oklahoma Bankers Association, are cooperating with Government and state agencies and the American Bankers Association to help save our soil. A little research brought to our attention the fact that from 20 to 200 farmers in every county wanted to terrace their land. They had the horse or tractor power to do the work but could not turn a furrow until some experienced engineer could run the levels for them. The A. &. M. College contributed every possible assistance along this line consistent with its limited appropriations. The county agents, although working overtime, were unable to meet the demand. Seeing an opportunity to assist, our agricultural committee divided the state into five groups, and the five groups into 20 clearinghouses with one member of the committee in charge of each group. Pending the removal of growing crops, this committee is conducting a survey to ascertain the number of farmers in the state who are willing to terrace if the levels are run for them. With this information in hand we are appealing to the engineers in charge of the work of the C.C.C. camps in each clearinghouse area for men to run levels.

If a sufficient force cannot be delegated for this purpose we will call our bankers into conference in each clearinghouse district with a view to employing engineers to conduct a school to educate enough men in each area to run the required levels. The farmers are willing to pay from 10 to 15 cents an acre for running their lines, and are willing to purchase terracing machines if they do not already own them. We have secured the passage of a bill through our state legislature appropriating six power terracing machines for each county. Where this fails to take care of the demand of farmers who cannot afford their own terracing equipment it will be the purpose of our bankers to furnish a few homemade machines which can be constructed at a reasonable price. Through this method we may be able to furnish an outlet for the latent power ready to start the work of terracing thousands of our farms.

Saving on Savings Accounts

TO the Board of Directors:*

As instructed, an analysis of savings accounts was made for a period of one year in order to determine the cost of carrying them. Your investments were also analyzed for a period of one year in order to determine your average yield on your earning assets, which earning rate would be applicable to the investment of funds created through accepting savings accounts.

The daily average deposits for the period analyzed amounted to $1,681,470.94, less 6 per cent reserve requirements, or a net average daily deposit of $1,580,582.68. During the period of one year the total interest paid on savings accounts amounted to $30,153.24. By changing the mode of paying interest quarterly at 2 per cent on minimum monthly balances, irrespective of the balance in the account, to six month periods, and figuring interest only on the lowest balance in the account during the six-month period, the average rate of interest paid on savings accounts for one year amounted to 1.788 per cent before reserve requirements and 1.9077 per cent after reserve requirements.

The total expenses applicable to savings accounts, exclusive of the cashier's overhead expenses for the investment of funds deposited, amounted to $4,305.17. This amount, I understand, will show an increase in the future, as the State is expected to reinstate the law regarding the tax on savings accounts, regardless of the rate of interest paid.

An analysis of savings accounts was made for a period of one year in order to determine the percentage of accounts to the total accounts and the percentage of the total balance under each classification to the total of all savings accounts. Total activities of the various groupings were also analyzed for the period covered.

Accounts in the $1–$10 classification numbered 649, which amounted to 24.07 per cent of the total. The total balances of all these accounts amounted to $2,302.00, or .12 per cent of the total balances of all accounts, amounting to $1,775,882.00. The number of accounts in the $1–$50 class was 397, or 14.72 per cent of the total accounts. The total balances of the $10–$50 accounts amounted to $10,166.00, or .57 per cent of the total of all balances. Approximately 2,010 entries passed through the $1–$10 accounts during the period analyzed, or 16.44 per cent of the total activity. Approximately 1,656 entries passed through the $10–$50 accounts, or 13.53 per cent of the total activity. Therefore, the total loss in deposits, if the $1–$50 accounts were eliminated entirely, would amount to only $12,468.00, or .69 per cent, a negligible amount compared to the total deposits. The total activity of these classes of accounts represented 29.97 per cent of the total activity of all the accounts. The total interest credited for the year on accounts from $1–$10 amounted to $132.24 of a total credited of $30,153.24, or .438 per cent of the total, which is also negligible if interest were eliminated entirely in this class. My analysis also disclosed that quite a few savings depositors are abusing the privilege of carrying this type of account by using it as a checking account. A sample of this activity is represented by the following:

Account Number	*Balance*	*Number of Debits*	*Number of Credits*	*Interest Credited*
59	$8.79	18	51	$ .35
789	1.00	7	6	—
3265	1.51	8	7	.06

A detailed list showing the activity of all other active accounts should be prepared from my analysis sheets left with the bookkeeper. The customers should be interviewed by the cashier and the account closed entirely or placed on a checking account basis subject to service charges.

In view of the risks involved in investing funds, the payment of Federal Deposit Insurance, and the tax on savings accounts paid to the State, I would suggest the following:—

1. No deposit of less than $10 should be accepted.
2. No interest should be paid on any account under $50.
3. There should be a reduction of interest on thrift deposits with balances over $3,000 to 2 per cent on the first $3,000, and 1 per cent or 1½ per cent on all amounts over $3,000. The bank had 48 accounts with total balances of $400,076, which represented 22.53 per cent of the total balances of all thrift deposits.

All earning assets accounts were analyzed for one year in order to determine the average yield on your investment of funds, which constituted practically the entire earnings of the bank. Taking the earnings on a cash basis during the yearly period analyzed, a rate of 4.816 per cent was earned on your average investment. The following schedule is respectfully submitted:

ANALYSIS OF EARNING ASSETS
(for a period of six months)

	Average Daily Balances Investments	*Per cent of Investment to Total Investments*	*Amount of Earnings*	*Average Earning Rate*
U. S. bonds.........	$ 469,145.80	18.571%	$ 4,299.24	1.812%
Other stocks and bonds	732,708.51	29.005%	16,694.85	4.507%
Loans and discounts..	1,069,133.38	42.322%	31,802.25	5.884%
Federal mortgage loans	49,442.85	1.958%	1,223.59	4.895%
Monthly payment plan	131,955.28	5.223%	6,445.05	9.661%
Other real estate and chattel mortgages	73,794.27	2.921%	1,050.00	2.814%
	$2,526,180.09	100.00 %	$61,514.98	4.816%

In connection with the earning rates on Federal mortgage loans of 4.895 per cent and loans under the monthly payment plan of 9.661 per cent, it is suggested that some consideration be given to the setting up of an unearned discount account on the general ledger, into which the discount on these long term loans from 12 months upward be credited. The proportionate amount earned each month should be taken out of unearned discount and credited to earnings instead of the present procedure of crediting the full amount of earnings immediately to the earnings account.

Regarding the income on "other real estate" and chattel mortgages, amounting to $1,050.00 with an earning rate of 2.814 per cent, it was found that expenses covering opera-

*Based on an actual report made to the board of directors of a small bank analyzed by the author.

By THEODORE HENRIQUES

tions were charged direct to the expense account. It is suggested that all expenses hereafter be charged against the particular property affected. This would reduce the average earning rate considerably.

Considering the average net deposits on savings accounts after reserve requirements, amounting to $1,580,582.68 invested at the average yield on all investments of 4.816 per cent, and a payment of a 2.18 per cent cost rate which would include estimated expenses of $4,305.17 and interest requirements of $30,153.24 on a 1.9077 per cent basis, the profit accruing from savings accounts during the period analyzed amounted to $42,719.67, viz:

Investment of funds-savings accounts (4.816% average yield)	$77,178.08
Cost of operating savings accounts (exclusive of investment service)	34,458.41
Profit on Accounts	$42,719.67

or approximately 2.665 per cent profit on the amount of savings account deposits after reserve requirements invested at the average yield on investments.

The cost of carrying accounts in the $1–$50 class, exclusive of interest charges on average savings accounts deposits of $14,000 less 6 per cent reserve requirements, or $13,160, was as follows:

$13,160.00 invested at average earning rate of 4.816 per cent		$ 642.60
Yearly cost per account $1–$10 class (649 accounts @ $1.655 per account)	$1,074.09	
Yearly cost per account $10–$50 class (397 accounts @ $1.655 per account)	656.04	1,730.13
Yearly loss on accounts $1–$50		$1,087.53

This is, of course, exclusive of the cost of each item passing through the accounts during the year at a cost of .3519 cents per item on 3,666 items, or $1,290 in addition to the $1,087.53 loss shown above, or a loss of $2,377.53 on these small accounts.

Your consideration of my previous suggestion to eliminate all interest on accounts up to $50 and to accept no deposit less than $10 is again called to your attention after reviewing the above cost figures.

RECORDS AND PERSONNEL

The records of the bank were neatly kept and operating costs, I believe, are being kept down to a minimum figure. However, due to the limited staff, the teller at the savings account window posts all records on the cards and also runs the general ledger.

This operation, I believe, should be remedied by allocating the posting of the daily entries on the cards to someone else.

The excess reserve of numerical pass books and cards should be kept under control and immediately removed from the stationery supply room, where it is subject to the access of all employees in the bank.

ANALYSIS OF SAVINGS ACCOUNTS FOR A PERIOD OF ONE YEAR

Daily Average Deposits	$1,681,470.94	
Less 6% Reserve Requirements	100,888.26	$1,580,582.68
Total Interest Paid on Accounts		30,153.24
Average Rate of Interest Paid on Accounts before Reserve Requirements		1.788%
Average Rate of Interest Paid on Accounts after Reserve Requirements		1.9077%

ACCOUNTS

	Number of Accounts at Close of Period	*Per Cent of Total*	*Total Balances at Close of Period*	*Per Cent of Total*	*Number of Debit Entries During Period*	*Number of Credit Entries During Period*	*Total Number of Entries*	*Per Cent of Total*
$1 to $10.00	649	24.07	$ 2,302.00	.12	482	1,528	2,010	16.44
$10.01–$50.00	397	14.72	10,166.00	.57	462	1,194	1,656	13.53
$50.01–$100.00	215	7.97	15,666.00	.88	313	726	1,039	8.50
$100.01–$500.00	612	22.69	154,880.00	8.72	831	2,621	3,452	28.22
$500.01–$1,000.00	341	12.64	241,624.00	13.61	480	1,292	1,772	14.48
$1,000.01–$5,000.00	435	16.13	951,168.00	53.57	501	1,542	2,043	16.70
Over $5,000.00	48	1.78	400,076.00	22.53	76	185	261	2.13
	2,697	100.00	$1,775,882.00	100.00	3,145	9,088	12,233	100.00

Average Number of Accounts during period 2,600.00

EXPENSES

Salary	$ 257.66
Rent	60.00
Stationery	100.00
Machines and Equipment (amortization)	6.00
Light	12.00
F. D. I. C. Insurance Charges (⅔ of amount paid)	1,871.14
Tax on Thrift Accounts Paid State	1,998.37
Total Yearly Expenses	$4,305.17
Cost per Item	.3519
Cost per Account	1.655
Average Yield on Investments (for period analyzed)	4.816%
Average Rate of Interest Paid on Accounts after Reserve Requirements and Including All Expenses	2.18%

Budgetary Control for Small Banks

By J. W. MILLER

THE advantages of budgetary control of income and expenses are not generally appreciated by many bank managements, especially those who operate the smaller institutions. When the subject is brought up in discussion these officials will agree that in theory control is excellent but in practice it simply doesn't work out. With very few exceptions, expressions of this type come from men who have not given budgetary control a trial. Once an institution is operated under a budget, it is reasonably certain the management will insist upon continuing to do so.

Budgetary control consists of anticipating a bank's income and attempting to keep its expenses in proper relation to the income figure. It is merely a means to an end.

Operating under a budget has a valuable psychological effect on all officers and department heads responsible for operations. These men have set and are striving for a certain goal and will exert every effort to attain it. While many banks have been budgeting their expenses, it is generally true that only the larger institutions have been budgeting both income and expenses. To get a complete picture both income and expenses should be budgeted.

The first step necessary to place a bank's operations under a budget is for the management to make someone responsible for its preparation. This should be the controller or auditor or, in small institutions where no such office exists, someone who is thoroughly familiar with the earnings and expenses of the bank.

In arriving at the income figures highly detailed analyses should be made. The heads of the lending, investment and service departments should be consulted in an effort to determine the prospects for the coming year. Proper consideration should be given to the trend of the volume in the various departments. The possibility of changes in the rates of interest received on earning assets should not be overlooked. The many fees charged should be carefully analyzed and those which seem inadequate for the service rendered should be adjusted wherever this is possible.

CONSIDER INTEREST RATES

ONE of the largest disbursements in a bank's operating statement is interest paid. With interest received on a large portion of banks' earning assets almost at the vanishing point, this item looms up more important than ever. Careful thought should be given the rates of interest paid to determine whether these figures are in line with the low yields received from loans and investments. The heads of the certificate and savings departments should be consulted in anticipating the volume of business to be handled by them.

At meetings of department managers there often appear many items of expense which are absolutely unjustified. Generally when these expenses were first incurred, perhaps years back, they were necessary. I have in mind an actual experience. The management of one bank was purchasing the lunches for all its commercial tellers each Tuesday. Every week on this day a large manufacturing corporation was meeting its payroll with checks drawn on this bank, the majority of which were cashed during the noon hour. For two years after the corporation discontinued this practice the bank had been paying for these tellers' lunches. This useless expenditure was disclosed at the time budget control was inaugurated.

If a bank segregates its expenses as to departments, the budget of expenses should be set up in a similar manner. However, departmental accounting is not absolutely necessary to operation under a budget. The various items of expense can be budgeted either as to departments or for the bank as a whole.

Under budgetary control, before expenses are incurred they should be approved by the person in charge of the budget. This is very important. Conditions may arise which necessitate certain expenditures that were not taken into consideration at the time the budget was prepared. These items should be analyzed very thoroughly by the budget head, and, before passing on them, he should present them to the proper operating officials for their approval.

The various statements should be so arranged that the results from actual operations can be compared with the figures set up in the budget.

HEADINGS IN THE REPORTS

TO give some idea of the arrangement of these reports, the main headings are given here in small capitals and the subheads in italics. Further breakdowns are shown in parenthesis. In the operating income report: BANKING INCOME, *Interest* (collateral and unsecured loans, real estate loans, budget plan loans, bonds and securities—exempt, bonds and securities—taxable), *Service Charges* (commercial department, savings department, miscellaneous), *Miscellaneous, Total;* INTEREST EXPENSES, *Time Deposits, Public Funds, Total;* GROSS BANKING INCOME; OTHER INCOME, *Trust Fees, Safe Deposit Rentals, Contract Fees, Miscellaneous, Total;* TOTAL OPERATING INCOME. In the expense report: SALARIES, *Officers, Employees;* PRINTING AND STATIONERY; OFFICE SUPPLIES; TRANSMISSION CHARGES, *Telephone and Telegraph, Postage, Express, Miscellaneous;* REPAIRS AND MAINTENANCE OF EQUIPMENT; BANKING QUARTERS, *Rent, Light-Heat-Power, Supplies, Miscellaneous;* INSURANCE, *Blanket Bond—Burglary—Robbery, Liability and Casualty, Compensation, Fire—Tornado—etc.;* FEES, *Directors' and Committee, Legal;* CREDIT, RESEARCH AND STATISTICAL; ASSOCIATION DUES; TRAVELING; DONATIONS; ADVERTISING; TAXES; MISCELLANEOUS; TOTAL EXPENSES. In the departmental expense report: SALARIES, *Manager, Others;* LUNCH MONEY; PRINTING AND STATIONERY; OFFICE SUPPLIES; TELEPHONE AND TELEGRAPH; POSTAGE AND EXPRESS; TRAVELING; MISCELLANEOUS; TOTAL.

The column headings that apply to all three of these reports are: *This Month, Same Month Last Year, Increase or Decrease, This Year to Date, Same Period Last Year, Increase or Decrease, Budget to Date, Over or Under Budget.*

From Taxes to Moby Dick

QUESTIONS on everything from taxes to Moby Dick are included in the final examination of 1936 sponsored by the Institute of Bankers in South Africa. This is the principal banking organization in the Union. According to a recent issue of the *Journal* of the Institute, the examination was divided into two parts, economics and English. The time allowed for each part was three hours. In the case of the English group, some questions counted more than others, the various values being indicated after each question.

ECONOMICS

1. "Those who clean the streets help to produce what society wants, namely: clean streets." (Jones, page 21.) Discuss this statement with reference to the distinction between productive and unproductive labour.

2. What are the advantages of large scale production? What advantages, if any, has the South African branch banking system over the unit system, i.e., a large number of independent banks as obtaining in the United States.

3. "Extent to which increased demand results in rise in price depends on time available for the adjustment of supply." (Jones, page 246.) Explain this statement.

4. What is meant by normal monoply price? It is sometimes said that a monopolist can pass on any tax to the consumer without loss to himself, or that he can never pass on a tax because he has already charged the highest price. Discuss both statements.

5. Explain the causes of differences in wages in different occupations.

6. What are the functions of money?

7. Does the fact that prices have not increased in proportion to the quantity of gold in bank reserves disprove the quantity theory? In what way can Central Banks control prices? (*Journal*, May, 1936.)

8. Discuss the effect of mechanical systems of bookkeeping on the demand (a) for labour in banking, (b) for labour as a whole. (*Journal*, December, 1935, and textbooks.)

9. "The trades which are carried on by means of bounties are the only ones which can be carried on between two nations for any considerable time together, in such a manner as that one of them shall always and regularly lose."

Give a summary of the advantages of foreign trade and then discuss this statement.

10. The *Economist*, 9th May, 1936, gives the following rates of exchange, New York on London: (a) Old par, 4.8666. (b) New par, 8.2397 since dollar devaluation 1st February, 1934. (c) Cable, 4.9812.

Explain the terms (a), (b) and (c). In what sense, if any, are or were (a) and (b) par rates? In 1930 was there any connection between (a) and (c)? Does this connection between either (a) or (b) and (c) still exist?

ENGLISH

The marks allotted are shown in brackets at the end of each question.

1. Write an essay of about 500 words on one of the following themes:—

(a) "The League of Nations—Ideal and Real." (b) Aviation and the British Empire. (c) The place of the native in the development of South Africa. (d) The Contemporary English Novel. (e) "In Praise of Golf." (20)

2. Write (a) A letter to the Railway Company, claiming compensation for damage to your luggage. AND (b) Your retort to the Railway Company's reply, which has suggested that the damage is due to your personal negligence and no claim for compensation can be considered. (12)

3. Incorporate ten of the following words in sentences which will indicate clearly their meaning, and add to each a short definition of the word: contravene, discursive, ephemeral, flair, gyrate, homogeneous, plagiarize, kleptomania, hypothetical, mentality, judicial, commensurate. (10)

4. Correct the following sentences, giving very briefly, the reason for each correction:—

(a) Between you and I, there will be no tax now.

(b) Everyone but he was ready, yet the expedition was long delayed.

(c) Sitting on the gate a wasp stung me, but I did not feel it for some time.

(d) This is one of the best books that has been written on the subject.

(e) Who do you now think the queen will choose?

(f) Due to his bad eyesight he failed to hit the mark. (6)

5. Make a précis, about 75 to 100 words in length, of the following passage, and invent for it an explanatory title:

There has seldom been a time in cricket's long history when youth was so badly needed in first-class cricket as is the case to-day. On the one hand we hear the lament that the younger players are not coming forward. On the other hand there is the cry, "Drop the old men and give the youngsters a chance."

No one will deny that there is justice as well as policy behind the "Give Youth a Chance" plea. But it must always be borne in mind that of recent seasons youth has frequently let its advocates down. It is one thing to say that men of over forty should be placed on the compulsory retired list. It is another thing to find the younger men capable to fill their places. Already we should have lost a great deal of pleasure this season if Hendren, now in his forty-eighth year, had been exiled to the outer darkness of umpiring or coaching. In his opening game against Yorkshire he made over 70 runs when batsmen, who by this time in their careers should have eclipsed him, were failing hopelessly. In the next match against Surrey he was concerned in a long stand with the young player Edrich. . . . (13)

[*This discussion ran 375 words more.*]

6. "Lady Macbeth, not the witches, is Macbeth's evil genius." Discuss this, supporting your argument by detailed references to the play. OR "The Tragedy of Ambition." Is this an adequate description of the play? (13)

7. "Moby Dick suffers from the defects of the writer's qualities; long, learned digressions, loads of philosophic thought, clogging redundancies, choke the narrative." Amplify, and illustrate by references, this criticism. OR "In Moby Dick, Melville's imagination is active not only in the material, but also in the spiritual and moral spheres." Explain this. (13)

8. What qualities in Gibbon's Autobiography do you most admire? OR Describe Gibbon's studies at Lausanne, and the methods of study he employed and discussed. (13)

Social Security and Bonds

By GEORGE E. ANDERSON

PROSPECTS for the long pull in Government securities have been decisively altered by the confirmation of the social security program by the Supreme Court. It is unlikely that the provisions of the pension portion of the Social Security Act, establishing a huge fund already inaugurated by setting up in the Treasury the Old Age Reserve Account, will long endure. The impracticability of a system which would establish a reserve approaching $50,000,000,000, all of which must be invested in Treasury obligations, is already apparent. Indications are, however, that because of the general legislative situation and the advisability of establishing a considerable reserve on this account, the provisions of the Act will be allowed to run for some time.

Estimates of receipts for account of the old age pension system during the next fiscal year promise $540,000,000 for the Treasury. The part of this fund not required for current payments is to be invested in Government obligations that will net the Treasury not less than 3 per cent interest. Inasmuch as payments under this account do not commence until January 1, 1942, all of the fund, for the present, will go into Government securities. These may be acquired in the open market, or special Treasury obligations may be issued to absorb the money. In either event more than half a billion dollars of obligations will be taken from the market annually on this account.

The Treasury also expects to receive $570,000,000 in taxes for the unemployment trust fund which is eventually to be distributed to the states. Even if these funds are passed out promptly after the two-year period of preparation provided by law, there will always be a considerable proportion in the hands of the Treasury for investment in its own obligations.

PRICE IMPROVEMENT OUTLOOK

FROM the long term viewpoint the Old Age Reserve Account is the more important of the two funds. Its ultimate influence on bond prices naturally depends on the extent to which the present terms of the law are carried out and on how soon the law setting up the account is repealed or modified as, in the opinion of virtually all authorities, it eventually must be. For the immediate future, whether the Treasury issues new special obligations or enters the open market for Government securities for establishment of the funds, it is evident that the general effect of its operations will tend to improve the prices of all Government securities.

Naturally the prospects depend in large measure on the size of next year's Treasury deficit. If the Washington economy movement amounts to anything and next year's deficit can be held to the latest estimate of $400,000,000 or so, the Treasury's Old Age Reserve operations will absorb the deficit and no new borrowing to meet budget deficiencies will be required. At all events, Government borrowing from the general market will be reduced by the estimated $540,000,000. Assuming that the budget can be balanced in the following and subsequent years, the Treasury will take at least half a billion dollars of its securities from the open market each year, the annual sum steadily increasing.

In fact, if the Old Age Reserve Account is maintained for any considerable period the Treasury will rapidly absorb the outstanding public debt and, if continued long enough, will deprive banks and other investors of their present holdings of Government securities unless holders are willing to carry these securities at prices too high to enable the Government to net the required 3 per cent interest. In that event the Treasury will, perforce, increase the public debt by the issue of special 3 per cent securities, probably using the proceeds to retire other obligations as they mature.

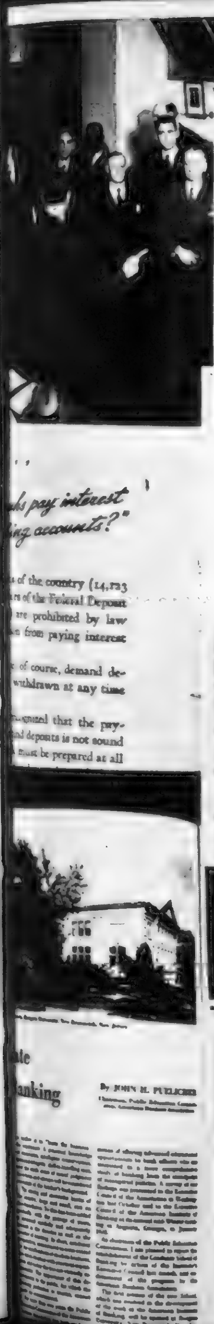
OPPOSING FORCES

EVENTUALLY, in either case, investors' holdings of Government securities will be decreased and their funds will be forced into other channels. Thus two opposing trends will be set up, one of which will tend to raise the prices of Government securities by reducing the supply available for investment by banks and the public generally. The other trend will be in the direction of lowering the prices of some of the outstanding issues to bring them within the 3 per cent class required for Treasury purchases.

How far the income on the unemployment insurance account, estimated for the next fiscal year at $570,000,000, will affect Federal financing is more uncertain than the results of the Old Age Pension provisions. The reserve account for unemployment insurance is to be invested in Government direct or guaranteed securities, either in special issues or by purchases in the open market on a basis which will yield the fund interest at the average rate for all interest bearing debt of the Government for the previous fiscal year. None of the money in the reserve fund is to be paid out for unemployment compensation until after two years' operation of the state law under which it is to be paid.

Thus the Federal Treasury will have acquired in the unemployment reserve fund a sum probably in excess of $1,000,000,000 before payments are to be made. Presumably the income from the tax on employers and employees thereafter will equal the payments made through the states. The Treasury will be able to take up on this account more than a billion of the outstanding Government debt as a permanent investment. The alternative of the absorption of outstanding Government securities under the unemployment insurance scheme is the issue of new securities which in time will replace outstanding issues.

Sooner or later, accordingly, the Treasury itself for account of the Old Age Reserve and the unemployment insurance fund will take up a gradually increasing proportion of the outstanding debt. The amount estimated for the next fiscal year is $1,110,000,000; it will increase annually thereafter. These sums will be taken from the public in the form of taxes and in general effect will reduce bank deposits proportionately until the funds are distributed in the form of pensions or unemployment benefits—five years in the case of the former, two years in case of the latter.



BANKING'S PICTURES

Class of 1937

George J. Alles	Linden, New Jersey
Norman H. Anderson	Reading, Pa.
Ellis F. Auer	Schenectady, New York
John F. Austin, Jr.	Frankston, Texas
Perrin L. Babcock	Syracuse, New York
William M. Backer	Bound Brook, N. J.
John W. Baker	Chicago, Illinois
Lisle Baker, Jr.	Louisville, Kentucky
David C. Barry	Rochester, New York
Leo J. Bauman	Pavilion, New York
Theodore Benninghoven	Lenexa, Kansas
Alvin J. Berry	St. Johnsville, New York
Hulbert T. Bisselle	Washington, D. C.
Paul W. Bittner	Greenfield, Massachusetts
A. Laurence Brackett	Taunton, Mass.
Raymond A. H. Brandt	Minot, N. D.
John S. Brayton	Fall River, Massachusetts
John M. Bredbenner	Nescopeck, Pa.
Floyd E. Brink	Philadelphia, Pennsylvania
J. Wolcott Brown	Manasquan, New Jersey
Fred B. Buck	Bakerton, Pennsylvania
Godfrey Budin	Teaneck, New Jersey
Paul C. Butcher	Chicago, Illinois
Dudley Caudill	Morehead, Kentucky
Robert L. Cherry	Charlotte, North Carolina
William G. Cleaver	New Haven, Conn.
Ernest G. Cleverdon	Mobile, Alabama
Harold S. Compton	Cranford, New Jersey
Richard L. Cooch	Wilmington, Delaware
Richard S. Crampton	Philadelphia, Pa.
T. H. Crawford	Jacksonville, Florida
Edmund Charles Darbois	New York, N. Y.
Walter L. Darrell	Raritan, New Jersey
Carlisle R. Davis	Richmond, Virginia
Edson B. Day	Plainfield, New Jersey
M. H. Deardorff	Warren, Pennsylvania
Henry H. Debes	New York, New York
E. N. Dekker	Cleveland, Ohio
Arthur R. Derbyshire	Fall River, Mass.
C. Wellington Dey	Little Falls, New Jersey
Kenneth H. Dickson	Westwood, New Jersey
W. Glenn Doherty	Delavan, Wisconsin
Frank E. Donnelly	Rochester, New York
Blanton K. Dorman	Shreveport, Louisiana
Joseph L. Downey	Boston, Massachusetts
Sherburn M. Driessen	Milwaukee, Wis.
Charles W. Dunn	Evansville, Indiana
Lewis O. Edwards	Fair Lawn, New Jersey

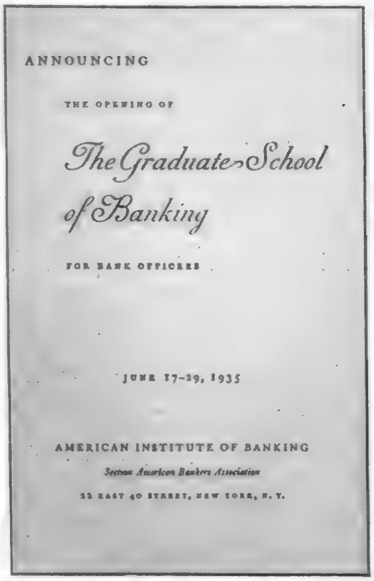
The Graduate School's

The Graduate School of Banking

By JOHN H. PUELICHER

In BANKING's issue of February 1935 appeared an article by John H. Puelicher describing the aim of the Graduate School of Banking, which was to hold its first session the following Summer at Rutgers

An official announcement, *below left*, was issued, which quoted the purpose of the School in part as follows: "The Graduate School of Banking will approach the problems of banking in a broad, educational manner, emphasizing the social and economic implications of banking and considering these problems almost entirely from the administrative point of view . . . . The fundamental objective of the teaching program is a broad educational approach in each course as distinguished from training in routine operation"



ANNOUNCING

THE OPENING OF

The Graduate School of Banking

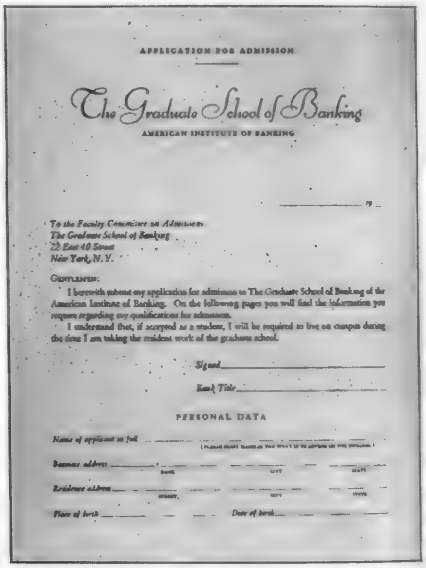
FOR BANK OFFICERS

JUNE 17–29, 1935

AMERICAN INSTITUTE OF BANKING

Section American Bankers Association

22 EAST 40 STREET, NEW YORK, N. Y.



APPLICATION FOR ADMISSION

The Graduate School of Banking

AMERICAN INSTITUTE OF BANKING

_______________ 19__

To the Faculty Committee on Admission
The Graduate School of Banking
22 East 40 Street
New York, N. Y.

GENTLEMEN:

I herewith submit my application for admission to The Graduate School of Banking of the American Institute of Banking. On the following pages you will find the information you require regarding my qualifications for admission.

I understand that, if accepted as a student, I will be required to live on campus during the time I am taking the resident work of the graduate school.

Signed _______________

Bank Title _______________

PERSONAL DATA

Name of applicant in full _______________

Business address _______________

Residence address _______________

Place of birth _______________ *Date of birth* _______________

Applications, *above right*, were received from bankers in all parts of the country, who stated their educational qualifications and outlined their business experience

More than 200 banker-students studied and lived on the campus from June 17 to June 29, 1935, the first of three resident sessions required of them for completion of the course

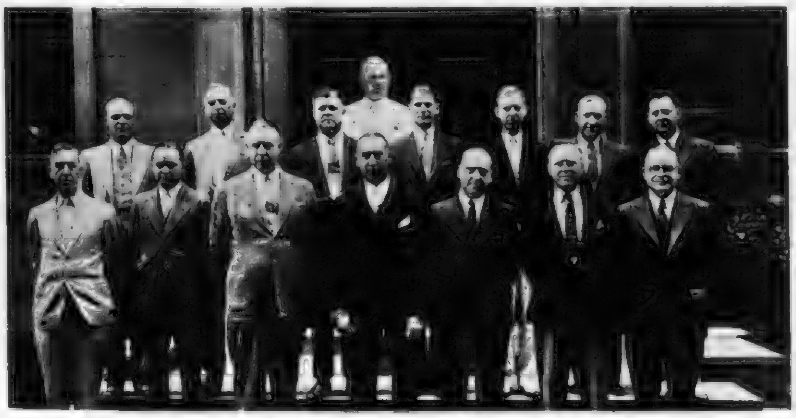
First Three Years

STUDENT'S SCHEDULE FOR TWO WEEKS' RESIDENT SESSION

A.M.	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
9:00 10:00	Major	Major	Major	Major	Major	Review in Major
10:10 11:10	Major	Major	Major	Major	Major	Review in Major
11:20 12:20	Banking Law	Banking Law	Banking Law	Banking Law	Banking Law	Review in Banking Law
P.M. 2:00 3:00	Minor	Economics	Minor	Economics	Minor	Free
3:10 4:10	Minor	Economics	Minor	Economics	Minor	Free
4:20 5:20	Athletics	Economics	Athletics	Economics	Athletics	Free
8:00 9:30	Seminar	Free	Seminar	Free	Seminar	Free

The schedule for each of the two weeks, published in the first catalogue, left no doubt about the amount of work required during the resident session

Two scenes on the campus in 1935. *Left*, during a ten-minute interval between classes; *right*, in a class studying banking law



The original faculty was, left to right, front row: Richard W. Hill, John J. Driscoll, Dr. Harold Stonier, Adrian M. Massie, Dr. George W. Edwards, Dr. Willard E. Atkins, Dr. Austin W. Scott; back row, left to right: Walter Elder, O. Howard Wolfe, Gilbert T. Stephenson, Dr. Eugene E. Agger, Edward Stone, Norman C. Miller, James Brines and George P. Barse

Norman D. Ellison	Mount Vernon, N. Y.
Ralph Endicott	Washington, D. C.
Louis W. Enslin	Erie, Pennsylvania
Thomas R. Evans	St. Louis, Missouri
Merle J. Fairbanks	Hornell, New York
Aage Feldtmose	Stamford, Connecticut
William C. Fenniman	Hartford, Conn.
Louis W. Fischer	Chicago, Illinois
George M. Fisher	Washington, D. C.
Clyde E. Flowers	Fort Wayne, Indiana
M. B. Fowler	Durham, North Carolina
John R. Fox	Fort Plain, New York
Horace E. Fredericks	Lock Haven, Pa.
Walter B. French	Jersey City, N. J.
W. H. Fries	Philadelphia, Pennsylvania
George Rogers Frost	Los Angeles, Calif.
Walter S. Gabel	New Kensington, Pa.
Jesse J. Gard	Portland, Oregon
Louis E. Goldstein	New York, New York
Swayne P. Goodenough	Rochester, N. Y.
Jay L. Goodin	Canton, Ohio
William L. Gregory	St. Louis, Mo.
James B. Grieves	Union City, Pennsylvania
Malvin F. Gstalder	Williamsport, Pa.
Louis Gurock	New York, New York
Arthur C. Harcourt	North Adams, Mass.
A. E. Willson Harrison	Richmond, Va.
F. M. Harriss, Jr.	El Paso, Texas
William Lynn Hart	Salem, Ohio
R. E. Haycock	Washington, D. C.
George A. Heaney	New York, New York
John A. Herber	New York, New York
Frederick W. Hetzel	Jersey City, N. J.
C. Gordon Hieber	Cleveland, Ohio
F. Guy Hitt	Zeigler, Illinois
H. H. Hoenstine	Windber, Pennsylvania
G. Philip Hoke	Spring Grove, Pennsylvania
Louis C. Holl	New York, New York
Thomas J. Hollingshead	Jersey City, N. J.
Stanley Hoyt	South Norwalk, Connecticut
Dr. Joseph E. Hughes	Tarrytown, N. Y.
John E. Humphrey	Huntsville, Alabama
Wilbur D. Hunter	Canton, Ohio
Lindley S. Hurff	Bound Brook, N. J.
Louis E. Hurley	Little Rock, Arkansas
G. Dewey Hynes	Montclair, New Jersey
Charles Garland Johnson	Elkin, N. C.
Edward C. Johnson	Rockville Centre, N. Y.

(Continued on next page)

Eugene T. Johnson	LaGrange, Georgia
Walter M. D. Kern	Jersey City, N. J.
Arthur K. Kiester	Los Angeles, California
H. B. Kingman	Dunkirk, New York
William J. Kinnamon	Flemington, N. J.
David C. Kirk	Newark, New Jersey
H. D. Knickerbocker	Bellevue, Michigan
John H. Kohler	New York, New York
Russell C. Kremer	Hazleton, Pennsylvania
Hubbard S. Lafoon	Richmond, Virginia
Harry Larsen	Lapeer, Michigan
Arthur R. Lemm	Milwaukee, Wisconsin
Henry E. Ley	Wayne, Nebraska
J. Gardner Lile, Jr.	Little Rock, Arkansas
Carl H. Lind	Stamford, Connecticut
Charles R. Lose	York, Pennsylvania
William T. McCaffrey	Syracuse, New York
Percy L. McCay	New Orleans, Louisiana
Harry R. McIntosh	Worcester, Mass.
Charles J. Machleid	Cedarhurst, New York
Robert W. Mackay	Warren, Pennsylvania
Frederick G. Mader	Albany, New York
Anthony Maleski	Philadelphia, Pa.
Paul O. Malone	Connellsville, Pennsylvania
J. F. Mannion	Chicago, Illinois
Harold J. Marshall	Canajoharie, New York
Wiley W. Meares	Rocky Mount, N. C.
J. W. Medford	Oxford, North Carolina
Percy B. Menagh	Newark, New Jersey
Arthur W. V. Mischanko	New York, N. Y.
Donald A. Moore	Altamont, New York
Eugene M. Mortlock	Bronxville, N. Y.
Thomas W. Munroe	Derry, Pennsylvania
E. P. Neilan	New York, New York
Carl A. Neumeister	Auburn, New York
Albert F. Newman	Providence, R. I.
Harold Ogram	Swarthmore, Pennsylvania
John O'Keefe	Kansas City, Missouri
H. K. Park	Columbus, Georgia
Larkin H. Parris	Atlanta, Georgia
Fred W. Patenaude	Middletown, Conn.
J. Nyce Patterson	Watsontown, Pa.
Moncure P. Patteson	Richmond, Virginia
W. Josiah L. Patton	New York, New York
William E. Pease	Torrington, Connecticut
Anthony F. Pepe	Bogota, New Jersey
Paul D. Peterson	Swedesboro, New Jersey
Elmer W. Pollock	Tulsa, Oklahoma
George E. Powell	Kansas City, Missouri

The Graduate School (*continued*)

Syracuse Bankers Take Finance Course

Special Dispatch to The Herald

New York, June 16.—William T. McCaffey, president of the Lincoln National Bank and Trust Company of Syracuse, and Perrin L. Babcock, also

ST. PAUL MAN WILL ATTEND BANK SCHOOL

R. F. Sturley, Assistant Cashier First National, Registers for Graduate Course.

ST. LOUISANS TO ATTEND GRADUATE SCHOOL OF BANKING—

Five St. Louisans have been reg-

Detroiters Attend School of Banking

NEW YORK, June 15 — Five bankers from

WORCESTER BANKER TO STUDY AT RUTGERS

Five Newark Bankers Attend Graduate School

Five bankers from Newark have been registered for the 1936 session of the Graduate School of Banking. They are: David C. Kirk, assistant secretary-treasurer, Fidelity Union Trust Company; Frank C. Riggs,

PITTSBURGH BANKERS ENROLL FOR SCHOOL

Will Attend 1936 Session of Graduate School of Banking

Special to The Pittsburgh Press

NEW YORK, June 15—Five bankers from Pittsburgh have been

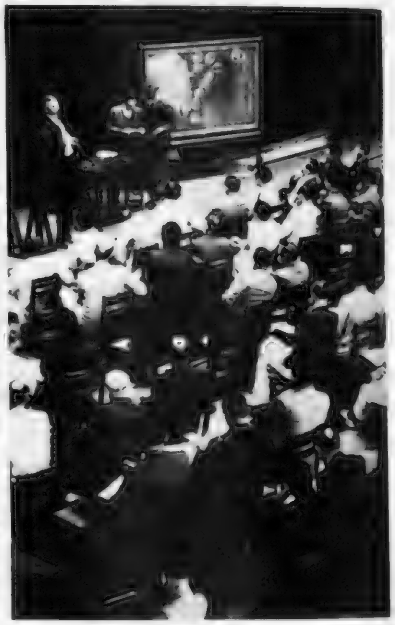
Seattle Bankers Enroll for School

Victor R. Graves, trust officer and assistant secretary Seattle Trust and Savings Bank, and Ross P. Williams, assistant vice president of the University National Bank of Seattle, have been

SAN FRANCISCO BANKERS ... GRADUATE

1936

The second session convened at Rutgers on June 22, 1936, for two weeks. Again the student body was made up of bankers from every section of the country. Newspapers in their home cities told of what they were doing



At the 1936 session: *above left*, the dining hall; *above right*, a class in bank management; *below*, a ball game on the campus. In view of the difficulty of the schedule, regular recreation is encouraged

The School's new seal first appeared on the 1937 catalogue

Oral examinations were held for the graduating class on June 19. Below is shown one of these examinations, in which John W. Remington (left), Lincoln-Alliance Bank & Trust Company, Rochester, New York, is being questioned by (facing camera, left to right) Gilbert T. Stephenson, member of the faculty and director of the School's Trust Research Department; Austin W. Scott, member of the faculty; and Carl K. Withers, Superintendent of Banking in New Jersey

Below, a Faculty Luncheon was held June 19. At the head of this table is O. Howard Wolfe. Facing the camera, are Alexander Wall, Austin W. Scott and William G. F. Price

Below, a group of students on the campus, 1937 Session

William Powers	Detroit, Michigan
G. E. Raymond	Canajoharie, New York
J. Coy Reid	New Haven, Connecticut
John W. Remington	Rochester, New York
Frank C. Riggs	Newark, New Jersey
John J. Roe	North Bergen, New Jersey
Edward Rokahr	New York, New York
Theodore Rokahr	Utica, New York
B. W. Romeffelt	New York, New York
George J. Ruhlman	New Orleans, Louisiana
John B. Rutkowski	Forty Fort, Pa.
Juan D. Sanchez	New Brunswick, N. J.
Louis Schaefer	Chicago, Illinois
Walter A. Schlechte	Petoskey, Michigan
John Sellors	Baltimore, Maryland
Walter G. Seymour	Maplewood, N. J.
A. D. Shackelford	Wilson, North Carolina
Russell M. Shontz	Sharon, Pennsylvania
Chester C. Slaybaugh	Yonkers, New York
Frank E. Smith	Paterson, New Jersey
Harry R. Smith	San Francisco, California
J. Park Smith	Topton, Pennsylvania
Allen N. Stainback	White Plains, N. Y.
Joseph F. Stashak	Manville, New Jersey
L. A. Stewart	Youngstown, Ohio
H. L. Stiles	Portland, Oregon
Lloyd W. Stover	Phoenixville, Pennsylvania
Robert Strite	Chambersburg, Pennsylvania
Stephen A. Sutton	Pittsburgh, Pennsylvania
William L. Tandy	Houston, Texas
Ralph L. Thomas	Pittsburgh, Pennsylvania
Hale Towne	St. Louis, Missouri
E. M. Van Lone	Beloit, Wisconsin
Walter G. Vogel	New York, New York
Thomas C. Wallace	Newark, New Jersey
Rodman Ward	Wilmington, Delaware
Alan G. Warner	New York, New York
Lawrence E. Watt	Winston-Salem, N. C.
J. Don Welch	Troy, New York
J. Harvie Wilkinson, Jr.	Richmond, Va.
Ross P. Williams	Seattle, Washington
Edward B. Wilson	Troy, New York
R. M. Wolf	Jersey Shore, Pennsylvania
Robert R. Wood	Claymont, Delaware
Elmer H. Worthington	New Milford, Conn.
W. F. Worthington	Dallas, Texas
Marcus N. Wright	Gardner, Massachusetts
W. Nelson Young	New York, New York
Frank L. Zeigler	Cherry Tree, Pennsylvania

A Bank in Brazil

The Bank of Brazil in Rio de Janeiro

A hall in the officers' quarters of the bank

The lobby where the general business of the bank is transacted

PHOTOS FOR BANKING BY WIDE WORLD

The "current accounts section" in the Bank of Brazil

Above, two views of the "orders and payments section." Banking practice in this institution differs, naturally, in many respects from that in the United States. Established first in 1808, the bank's duties have been extended until now it is not only the government's fiscal agent and the sole bank of issue, but also a commercial institution, dealing directly with the public. *Below*, the exchange department

This Year New England

The American Bankers Associatio[n] meets in Boston, October 11 to 1[...]

[WH]ERE *Sports* THRIVE

SEARCH the wide world over and for a happy land to play in you'll come back to New England. Zestful climate, multiplicity of natural advantages, peopled by generations born to the fishing rod, the gun, and the saddle and skilled in the sports of the old world from which they came, New England is a sportsman's homeland.

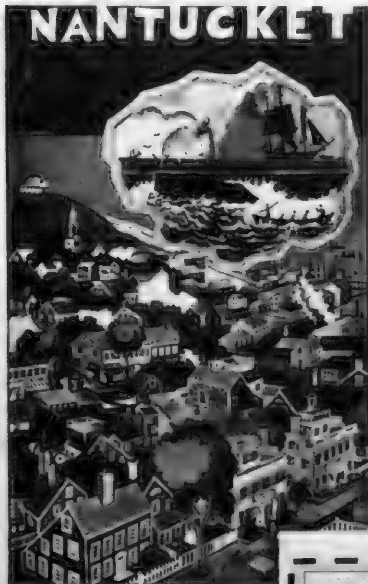
Here the golf courses stay fresh and green all summer. Here thousands of miles of secondary woods roads have been knit into inter-state bridle trails systems with farmhouses welcoming man and beast to comfortable inexpensive lodgings and good New England food. Here the snow train had its birth and great development. Here in more recent years the Continental week-end hiking train and the novel hike-and-bike train have opened new recreation possibilities to city dwellers.

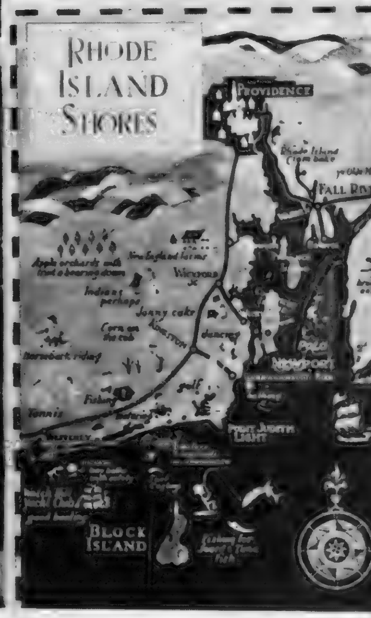
If you would a-cruising go, you will wish to cruise the New England coast. Ten thousand intriguing harbors, bays, and islands woo the helmsman's tiller. If a lonely anchorage in an uninhabited inlet miles from other men, no longer hits that momentary spot, there are hundreds of yacht clubs

An estimated 3,000,000 visitors use the six New England states' recreational resources yearly, spending $400,000,000


CUSHING

Eastport, Maine, farthest-east town in the United States





For Release at 3 P.M.

Behind these guarded doors the report is being prepared

The Department of Agriculture's crop report is compiled with the greatest secrecy. Doors are locked and strongly guarded, telephone lines are disconnected, and window blinds are sealed against the possibility of signals being transmitted before the report's official release, which is awaited with intense interest by commodity markets throughout the world.

The pictures on this page show some of the steps that are taken in releasing the crop report.

Window blinds are sealed

The Crop Reporting Board puts the finishing touches on its work. In the chairman's seat, left end of the table, is D. A. McCandliss, while standing beside him is A. R. Tuttle, secretary; on the far side of the table are, left to right, J. H. Peters, R. K. Smith and J. A. Ewing; at the right end of the table is John B. Shepard; at the near side of the table are, left, Joseph L. Orr and, right, H. L. Collins

PHOTOS FROM EWING GALLOWAY

Under Secretary of Agriculture M. L. Wilson signs the report before it is issued. On the right is Mr. McCandliss

At three o'clock sharp the report is released to newspaper men who have been waiting. Some telephone their offices immediately; others discuss the report and seek further information

Advertising Why and How

In view of Mr Eccles' recent statement, we regard it as appropriate to reprint this advertisement which we published a year ago

The Importance of a Balanced Budget

We have pointed out in previous advertisements, that our local, state and federal governments are spending more than 17 billion dollars per year, that this amounts to one-third of the national income and that it is three times the total gross incomes of all people in the United States with net incomes of $5,000 or more.

Government expenditures have been met partly through taxation and partly through borrowing. During the last six years the Federal Government alone has spent nearly two dollars for each dollar it has collected in taxes. Its expenditures of 33 billion 918 million dollars during this period were nearly double its revenues of 17 billion 291 million dollars.

A government, like an individual may spend beyond its income for a period of time. It cannot do so permanently. Sooner or later its credit would be destroyed and its bonds would become unsalable. When a government destroys its credit, it has but two alternatives. It must balance its budget by reducing expenses or by raising taxes, or it must print irredeemable paper money. History shows that almost invariably when this point is reached, government follows the politically easy course and starts the printing presses. Of all types of inflation, printing press inflation is the worst. It is more deadly than war or pestilence for it spares no one. It is the most destructive economic plague that a nation can experience. Ultimately it strikes down everyone except a handful of lucky speculators. It strikes first and hardest at those with fixed incomes and those on wages and salaries. Wages and salaries increase at a snail's pace while prices run wild as paper money becomes progressively more worthless.

The world has seen many examples of currency inflation resulting from government budgets which could not be balanced. Once the process starts and the printing presses begin, it is next to impossible to stop. As prices skyrocket, government expenses mount more rapidly than tax revenues and the budget becomes progressively more hopelessly out of balance forcing the printing presses to run more rapidly until finally the currency is worth less than the paper on which it is printed. The classic example of printing press inflation took place in Germany following the World War. Austria, France, the United States and many other countries have experienced one or more such inflations. Our expression "not worth a Continental" was coined to express the public's scorn for the worthless American dollar of our inflation following the Revolutionary War.

Our country today is in no immediate danger of currency inflation. Such inflation will not come if the budget can be balanced within a reasonable period of time. But if the budget cannot be balanced, if government expenditures cannot be held within revenues, and if the government credit is destroyed, then uncontrollable currency inflation is inevitable. Balancing the budget is not a matter of political policy, it is not a matter of parties or of partisanship—it is an economic necessity—it is the most important problem before the country.

In pointing out the importance of a balanced budget we speak for several thousand beneficiaries of trust estates who would be among the first victims of destructive inflation.

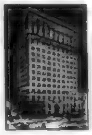
This is the twelfth and final advertisement of our series on American business. This series has been reprinted in booklet form for distribution to the public. Copies will be sent upon request.

It's Safer to name a trust company as your Executor and Trustee

St. Louis Union Trust Company

TRUST SERVICE EXCLUSIVELY

Broadway and Locust



BANKING AND PUBLIC WELFARE
NO. 20

What Is Big Business?

"Big Business" is "Little Business" grown big through public usefulness.

Great automobile concerns have sprung from the idea of inventive genius making a machine within reach of the average American family, a man worked out a formula for a ready-to-eat cereal and a great food company resulted, great shoe companies have developed from the superior services of individual cobblers, gasoline is pumped virtually to your door by the facilities of great oil concerns, great power companies bring light and power into our homes, large concerns of various types all have grown in response to public need.

And as it has grown, "Big Business" has added to the comfort and well being of the American public, improved the lot of American Workers, produced superior products at lower costs, provided employment for millions, accelerated and stabilized business through plowing back profits into plant and merchandise, enhanced the prosperity of the nation through payment of wages, taxes and dividends.

Along with other American banks the First National serves businesses both large and small. Throughout its seventy years of banking this institution always has kept sight of the fact that "Big Business" grows from "Little Business" and has constantly expanded its facilities to meet the increasing demands of its city and section.

FIRST NATIONAL BANK
ATLANTA

Letters of a business man to his son

V

Dear Son:

Your request for advice, in behalf of your room mate's mother, on the subject of her going into the bakery business, catches me off guard. What I don't know about the bakery business would fill a large volume!

The situation you describe must be quite vital to Mrs. Mifflin. I don't know why it is that someone or other is always trying to induce widows to go into business. It appears that the man who wants her to finance a new bakery had ample opportunity to put the same request to her late husband. I very strongly suspect that he knew the answer would have been "no". So this enterprising baker now seeks the selfsame money through what he supposes to be an easier route.

Mrs. Mifflin, I take it, doesn't know anything about the bakery business. She seems half-convinced that her money will pay a large dividend invested in some such business. It is entirely possible that it might. On the other hand, Mrs. Mifflin hasn't any way to insure the success of the enterprise. She doesn't know anything about business, let alone baking. I am quite sure she is using friendship as the deciding factor instead of sound business judgment.

My advice—given for what it is worth—is for Mrs. Mifflin to march straight down to the trust department of her bank with her attorney and have a trust agreement drawn up which will relieve her of every detail of management, which will put her securities in capable hands and provide her with an adequate, secure income for the rest of her life. If they decide to have her put her money into the bakery, the decision will be made on a sound business basis. The cost for the bank's services in seeing to it that her investments produce maximum earnings with maximum safety will be modest. Her peace of mind will be tremendous.

Cordially,

Dad

P.S. Be sure to listen to "Money Talks" by Royal F. Munger on WMAQ on Tuesdays and Fridays at 10:15 P.M.

AMERICAN NATIONAL BANK AND TRUST COMPANY

of Chicago

LA SALLE STREET AT WASHINGTON

COMMERCIAL • CHECKING • SAVINGS • TRUSTS

QUESTIONS THAT ARE ASKED ABOUT BANKING

"Why don't Banks pay interest on checking accounts?"

MOST of the banks of the country (14,123 which are members of the Federal Deposit Insurance Corporation) are prohibited by law or government regulation from paying interest on "demand deposits."

Checking accounts are, of course, demand deposits, for they may be withdrawn at any time by the depositor.

It is now generally recognized that the payment of interest on demand deposits is not sound banking practice. A bank must be prepared at all times to pay out these funds on demand. Consequently, the bank cannot make full use of this money because it does not know when the depositor may want to withdraw it.

A checking account is primarily for the convenience of customers for keeping their money and writing checks. For those who wish to receive interest their funds can be placed in interest-bearing time deposits.

The CITY NATIONAL BANK and TRUST Co.

20 EAST BROAD

On These Pages Are a Few of the Recent Advertisements That Seek to Tell the Public Something About Banking

The School Comes to The Bank

When a class from the Theodore Ahrens Trade School in Louisville visited the Lincoln Bank & Trust Company in that city, President Noel Rush of the bank was host to the students in his office (right). He proceeded to "take the mystery out of banking"

The transit department's routine was explained

Safe deposit departments are always impressive

Wilbur T. Chapin, executive vice-president of the bank, took the students to the directors' room, where he explained the institution's semi-annual statement

The A.I.B. in St. Paul

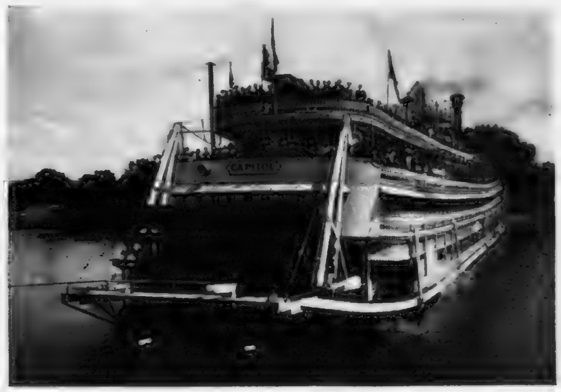
Above, right, Frank R. Curda, new A. I. B. president, is congratulated by his predecessor, Henry Verdelin. Mr. Curda is assistant vice-president, City National Bank & Trust Company of Chicago. Mr. Verdelin is assistant vice-president, First Service Corporation, Minneapolis. Milton F. Barlow, cashier, National Citizens Bank, Mankato, Minnesota, was elected vice-president. The following were elected members of the Executive Council: John L. Barnes, assistant trust officer, Huntington National Bank, Columbus, Ohio; John B. Laplace, Jr., assistant manager of the credit department, Whitney National Bank of New Orleans; Russell C. Lemmon, assistant cashier and assistant trust officer, Farmers and Merchants National Bank, Los Angeles; D. E. Simms, accountant, Federal Reserve Bank, Salt Lake City.

Above, left to right, Dr. Harold Stonier, Educational Director of the American Institute of Banking; Richard W. Hill, Secretary of the Institute; Tom K. Smith, President of the American Bankers Association.

ABOVE—Winners in the National Public Speaking Contest for the A.P. Giannini Educational Endowment prizes were, left to right: Jason W. Stockbridge, Savings Bank of Baltimore (first prize, $500); George S. Allen, Harris Trust & Savings Bank, Chicago (second prize, $300); James W. Dodd, Jr., Federal Reserve Bank, Richmond (third prize, $200); Robert C. Rutherford, First National Bank & Trust Co., Minneapolis (fourth prize, $100).

LEFT—Members of the New York Chapter, A. I. B., won the John S. Puelicher Debate Trophy, upholding the negative side of the proposition: "Resolved, That Tax Exempt Securities Should No Longer Be Issued." Left to right, with their cup, are John G. Gmelch, Brooklyn Trust Company; John J. Leane, National City Bank; George J. Mayer, Lawyers Trust Company.

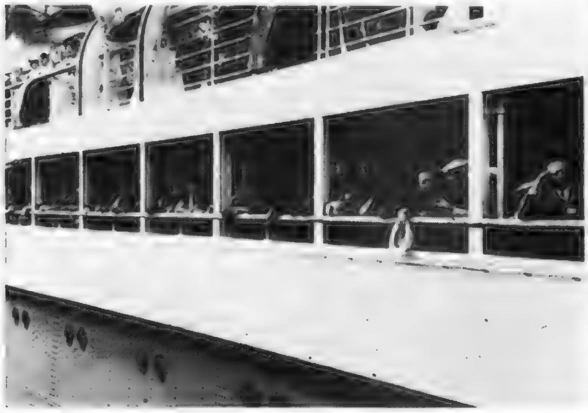
The publicity exhibit at the convention. At the right is Albert E. Felsted, First National Bank of St. Paul.



In their spare time the members and guests enjoyed an excursion on the S.S. *Capitol*.

On Deck

THE New York State Bankers Association held its annual convention on board the S. S. *Washington* during a cruise to Bermuda May 27 to June 1. The 700 passengers—bankers and guests—represented about 190 institutions.



At sailing time

Left to right: Raymond N. Ball, president, Lincoln-Alliance Bank & Trust Company, Rochester, and president of the state association during the past year; Frank K. Houston, president of the Chemical Bank & Trust Company, New York, and the association's new president; Capt. G. C. Stedman of the S. S. *Washington;* S. Sloan Colt, president, Bankers Trust Company, New York, a former president of the association

Disembarking from the tender *Regina* at Hamilton, Bermuda

At the speaker's stand is Dr. David Friday, vice-president and director, National Bureau of Economic Research, Washington; seated behind Dr. Friday are W. Gordon Brown, executive manager, New York State Bankers Association, and Mr. Ball

Left, George V. McLaughlin, president, Brooklyn Trust Company, former president of the association and former New York State Superintendent of Banks; *right,* Philip A. Benson, president, Dime Savings Bank, Brooklyn, and Second Vice-president, American Bankers Association

Seated at left is C. E. Huntley, Huntley Securities Corporation, Elmira; standing, left, William R. White, New York State Superintendent of Banks; right, Mr. Colt

Opposition to McAdoo Bills

Branch Banking Bill

TOM K. SMITH, President of the American Bankers Association, has announced that, based on action of the general Convention of the Association on the branch banking question at New Orleans in 1935, the Interim Committee of the organization has reached the conclusion that the Association should oppose McAdoo Bills S2347 and S2348 providing for branch banking across state lines.

The Association Convention in 1935 approved section 23 of the Banking Act of 1933 which provided in substance that national banks should be permitted to establish branches in various states in which they are domiciled where branch banking is permitted under state law, the effect of that section being to put national banks on a parity with state banks, which might be permitted to establish state-wide, county or city branches, without violating the principle of state autonomy.

In view of these facts, Mr. Smith says, the Interim Committee has adopted the following statement:

"The American Bankers Association has approved the principle of preserving state autonomy with respect to branch banking and granting to a national bank the right to establish branches in the state in which it is domiciled to the same extent that branch banking is permitted to state banks under the laws of that state."

Therefore the Committee on Federal Legislation of the Association has been instructed to oppose the McAdoo branch banking bills, Mr. Smith states.

The by-laws of the Association provide that in the case of bills introduced in Congress or departmental rulings affecting banks which require prompt decision as to policy and procedure, the President of the Association, the two Vice-presidents, the Executive Manager, the General Counsel and the Chairman of the Committee on Federal Legislation shall constitute an Interim Committee and shall have power, in the interim between meetings of the Administrative Committee, to make such decision in behalf of the Association. Any decision so made shall be reported to the Administrative Committee for approval or disapproval at its next meeting.

CORRECTION IN LIST OF MEMBERS

The First National Bank, Gainesville, Florida, transit No. 46, should be listed instead of Citizens Bank in the List of Members dated March 31, 1937.

Mr. Chamberlain's Letter

H. M. CHAMBERLAIN, President of the State Bank Division, and vice-president, Walker Bank & Trust Company, Salt Lake City, has addressed the following letter to the members of the Division:

"Senate Bill 2347, introduced on May 6, 1937, by Senator McAdoo, provides that a national banking association may, with the approval of the Comptroller of the Currency, establish and operate new branches at any place within the Federal Reserve district in which it has its principal office, provided that no branch may be established or operated in any state,

"'Unless at the time the laws of such state authorize the establishment and operation of branches of banks organized under the laws of such state.'

"The seeming fairness of the quoted language should not blind us to its insidious nature.

"State permission for the establishment of branches of its own banks within its own state borders has no relation whatever to state permission for the establishment within

CONVENTIONS

A.B.A. Meetings

June 22–July 3	Graduate School of Banking, Rutgers University, New Brunswick, New Jersey
Aug. 12–14	Annual Trust Conference of the Pacific Coast and Rocky Mountain States, Portland, Oregon
Oct. 11–14	A.B.A. Convention, Statler Hotel, Boston, Massachusetts

State Associations

July 12–17	North Carolina Bankers Conference, The University of North Carolina, Chapel Hill
Sept. 9	Delaware, Rehoboth Beach
Sept. 22–23	Kentucky, The Brown Hotel, Louisville

Other Organizations

June 28–July 23	Third Annual Cowles Commission Research Conference in Economics and Science, Colorado Springs, Colorado
Sept. 8–11	National Security Traders Association, Atlantic City, New Jersey
Sept. 13–15	Annual Convention of the Morris Plan Bankers Association, Broadmoor, Colorado Springs, Colorado
Sept. 13–16	Financial Advertisers Association, Syracuse, New York
Sept. 16–18	Savings Banks Association of Massachusetts, New Ocean House, Swampscott
Sept. 21–23	American Association of Personal Finance Companies, Hotel Indiana, French Lick Springs, Indiana
Sept. 23–25	Annual Conference of National Industrial Advertisers Association, Edgewater Beach Hotel, Chicago, Illinois
Oct. 11–14	Annual Meeting of the National Association of Bank Auditors and Comptrollers, Boston, Massachusetts
Oct. 18–23	Annual Convention, National Association of Real Estate Boards, The William Penn Hotel, Pittsburgh, Pennsylvania
Oct. 20–22	Savings Banks Association of the State of New York, The Greenbrier, White Sulphur Springs, West Virginia
Nov. 3–7	Annual Convention of the Investment Bankers Association of America, Greenbrier Hotel, White Sulphur Springs, West Virginia
Dec. 27–30	American Accounting Association, Atlantic City, New Jersey
Dec. 28–30	American Economic Association, Atlantic City, New Jersey

its borders of branches of a bank from outside of that state.

"The bill, if enacted, would destroy state autonomy in banking. It is an entering wedge of the most vicious nature.

"It should be opposed vigorously and promptly by every state bank and by every unit national bank.

"We, therefore, urge that you immediately contact your representatives and senators, and that you call this to the attention of non-member state banks and unit national banks, and urge that they take like action.

"Don't pass resolutions—write, telephone or wire your representatives in Congress.

"Ask your directors, leading stockholders and independent merchants to do likewise, then follow up to see that something is really done.

"Please write to me, giving the results."

Unprofitable Trust Departments

THE Committee on Trust Policies, Trust Division, American Bankers Association, has submitted to the Executive Committee of the Division a report on the problem of continuously diminishing earnings and increasing expenses of trust departments.

The Committee recommends that the Trust Division shall suggest to the bank or trust company with an unprofitable trust department the following steps:

1. That it find out whether the department actually is being operated at a profit or a loss, whether it is receiving all the income it is entitled to receive, and whether it is bearing its full share of operating and overhead expense.

2. That, if it is being operated at a loss, a cost-analysis be made to determine on what kinds of trust business it is making money and on what kinds it is losing money.

3. That, if the cost-analysis shows the department is making a satisfactory profit on certain kinds of business and is losing money on others, it name a special committee of officers and/or board members to consider:

(a) Whether the department is receiving adequate fees for all types of trust business;

(b) If not, whether it is feasible or desirable to classify the trust business into profitable and unprofitable and to accept the profitable and to decline the unprofitable;

(c) Whether, by internal changes in personnel, organization, or equipment, it is possible to put the trust business on a paying basis;

(d) Whether, by changing its new business policy, it is possible to put it on a paying basis;

(e) If the trust department is found to be hopelessly unprofitable, whether it should be closed and, if so, what steps should be taken, with due regard to the trust requirements of the banks' own trust customers and beneficiaries and of the community.

"The Committee feels that it should not conclude this report without reiterating its belief in the accepted policy of the Trust Division that trust service should be made accessible, in so far as practicable, to every person who really needs it," the report concludes. "Furthermore, the Committee wishes to point out that in recommending the closing of hopelessly unprofitable trust departments, it has in mind, not the contraction but the enlargement of trust service by putting it on a basis that is economically sound and therefore permanent."

New Public Relations Service

INAUGURATION of an individualized public relations service for banks by the American Bankers Association as an aid to its members in fostering understanding and good-will toward banking in their own communities has been announced by Tom K. Smith, President of the Association.

The Association, Mr. Smith said in a letter to the membership, had made extensive studies of the problem of improving public relations both for individual banks and banking as a whole, and this new service was added to its other facilities aimed to foster scientific bank management in order to "make the fruits of these studies available to the banking profession generally and promote public-relations-mindedness among bankers." It will be under the direct supervision of the general officers of the Association, and will supplement its other long established publicity, public relations, customer relations and advertising activities.

The service will cover such subjects as the history and an analysis of bank public relations in the United States, the present state of public opinion regarding banking, the general problem of the attitude of the public toward banking, successful methods used by banks to improve their local public relations, the use of advertising and news in aiding to create favorable public viewpoints, etc.

Portland Trust Conference

BLAINE B. COLES, President, Trust Division, American Bankers Association, has announced appointment of the following committees for the 15th Regional Trust Conference of the Pacific Coast and Rocky Mountain States, which will be held under the auspices of the Division at Portland, Oregon, August 12, 13 and 14:

General Conference Committee: A. L. Grutze, vice-president and trust officer, Title and Trust Company, Portland, general chairman; Blaine B. Coles, vice-president, The First National Bank, Portland; R. M. Alton, trust officer, United States National Bank, Portland; Lorne L. Miller, vice-president and trust officer, Portland Trust and Savings Bank; and John L. Day, Jr., assistant trust officer, The Bank of California National Association, Portland.

Program Committee: Lorne L. Miller, vice-president and trust officer, Portland Trust and Savings Bank, chairman; Blaine B. Coles, vice-president, The First National Bank, Portland; R. M. Alton, trust officer, United States National Bank, Portland; and Joseph H. Albert, trust officer, Ladd and Bush Trust Company, Salem.

Publicity Committee: R. M. Alton, trust officer, United States National Bank, Portland, chairman; D. J. Conway, The First National Bank, Portland; W. D. Hinson, The Bank of California National Association, Portland.

Entertainment Committee: John L. Day, Jr., assistant trust officer, The Bank of California National Association, Portland, chairman; C. F. Yates, assistant trust officer, Portland Trust and Savings Bank; E. C. Pierce, assistant trust officer, United States National Bank, Portland.

Arrangements and Registration: George W. Stewart, trust officer, The First National Bank, Portland, chairman; D. W. Mackay, assistant trust officer, United States National Bank, Portland; M. H. Erz, assistant trust officer, Title and Trust Company, Portland; L. B. Staver, assistant trust officer, United States National Bank, Portland; Clark Fisher, The Bank of California National Association, Portland.

International C. of C. Meeting

R. S. HECHT, chairman of the board, Hibernia National Bank of New Orleans, was appointed by President Smith as chairman of the American Bankers Association representation to the ninth general meeting of the International Chamber of Commerce, held at Berlin, June 28 to July 3. Mr. Hecht was president of the Association for the year 1934–1935.

METHODS and OPERATIONS

A clearinghouse of practical ideas submitted by readers of this magazine

Deposit Costs

A DESIRABLE type of report for any bank is that of a monthly presentation of the cost of deposits by classes, in comparison with the net investment return therefrom—loan, credit, and bond investment department costs being deducted from gross earning rate to get net. Such a report may show surprising results in respect of the net return from the various kinds of deposit business in which the bank is engaged, deposit costs being deducted from net investment return, and service charges on deposit accounts added to get final net.

The method of determining deposit costs may vary with the bank, but take demand deposits, for example. If demand deposits represent the main deposit cost, the costs thereof may be obtained by deduction. In other words, certain departments, divisions or members of the staff are likely to devote all their time to the handling of transactions that originate with all forms of deposit accounts, and the item costs of their work can be determined primarily irrespective of the class of deposits from which the activity arises. Then in order to get the portion of activity expense that originates, for example, in time or compound interest deposits, the volume of activity arising in the latter, with its corresponding total of unit costs, may be deducted from the total pool of activity expense, with the lion's share remaining allocable to demand deposits. In respect of time deposits, interest paid must also be included in cost.

After a bank has determined its deposit costs over a number of periods, it may find that they do not vary a great deal except in depression periods as contrasted with times of prosperity, but it is more likely to find that the earning rate varies a good deal more and that in an extended low earning period it may have to do something about it.

It is not here suggested that particular investments need necessarily be allocated to particular deposit classifications unless legal requirement or management policy directs the investment of certain funds into certain classes of assets. By and large it is generally fair to assume that all of the funds of the bank, including those of stockholders, are invested indiscriminately in all of the earning assets, though there are exceptions to this. For example, if a foreign department is separately constituted and its deposits of foreigners more than offset its earning assets, earnings from foreign department assets should be omitted from the general picture and only the excess of funds derived from the foreign department should be related to domestic earning assets. The same may apply to the trust department, and it will generally apply to branches.

Bond Account Analysis

A STUDY of quality, diversification, and maturities of the bond accounts of New York State banks and trust companies has been prepared by the New York State Banking Department.

The analysis was compiled from the examiners' reports of banks and trust companies for the last half of 1936, or the reports available nearest to that period.

Average percentages have been calculated for quality, diversification, and timing of maturities, by size groups and for the state as a whole. (The table on "quality" appears below.)

Each of the 291 institutions (six were omitted because they were not doing ordinary commercial banking) has been given equal weight regardless of size. The result is an average of averages for each group, and an average of group averages for the state as a whole.

Book figures were used for quality and diversification, par figures for timing of maturities.

Deposit Time Saving

ONE of the most vexing problems that all bankers have to contend with is the congestion in lobbies, particularly in small banks or branch banks, just before closing time and on Saturdays and pay-days.

Many regular customers are kept standing in line while the payroll checks of transients are cashed or change is requested.

To help solve this problem, a number of banks are experimenting with "deposit drops", which enable a customer to avoid the necessity of waiting in line to make a deposit.

These "deposit drops", known by various names, consist mostly of a strong metal case with a slot on the front or on the top. In other places there is simply a slot in the teller's cage. Nearby is a supply of envelopes in which the deposit, together with a deposit ticket, is enclosed and sealed, and the envelope dropped into the box. An acknowledgment is mailed to the depositor promptly, as of the day on which the deposit was made. In some instances, banks discourage the idea of

QUALITY

(See "Bond Account Analysis", Column 2)

Deposit Range. (000 Omitted)	*No. of Banks in Group*	*Govs., Municips. & 1st 4 Grades*	*Per Cent in Lower Grades*	*Default*	*Stocks*
Under $500	43	84.0	10.7	3.9	1.4
$500– 749	36	84.4	10.0	4.3	1.3
750– 999	19	80.0	12.5	6.6	0.9
1,000– 1,499	37	85.4	10.5	2.8	1.3
1,500– 1,999	26	88.5	8.0	1.9	1.6
2,000– 2,499	22	86.7	6.4	2.7	4.2
2,500– 2,999	8	90.4	6.8	1.8	1.0
3,000– 3,499	10	89.8	5.3	2.0	2.9
3,500– 3,999	9	88.5	4.7	1.3	5.5
4,000– 4,999	10	82.5	5.3	3.4	8.8
5,000– 7,499	20	88.1	4.6	2.1	5.2
7,500– 9,999	6	85.3	4.0	0.8	9.9
10,000–14,999	6	87.4	6.7	1.7	4.2
15,000–29,999	10	87.1	5.7	1.7	5.5
30,000–49,999	9	79.4	10.3	2.6	7.7
50,000 & over	20	87.2	4.2	2.1	6.5
State-wide	291	85.9	7.2	2.6	4.3

including cash and in others, cash is accepted, subject to the count of the bank.

For the present, the service is usually limited to commercial deposits, but it may later be used generally for all types of deposits.

This "deposit drop" is to be distinguished from the night depository service which is more generally in use and for which a fee is usually charged. The night depository is provided for customers *after* banking hours. Such customers are given a stout leather wallet in which they place cash and checks.

The bag is then locked and the customer uses his key to open a slot in the depository which is located on the outside of the bank building. He drops the bag into the slot and it falls into a vault.

He later comes to the bank during banking hours, retrieves the bag and makes his deposit at the window—or by means of the new "deposit drop". By using both the night depository and the "deposit drop", the customer can save time and also obtain protection for his cash over nights and week-ends.

For the present, the new service is almost entirely in the realm of customer convenience which, from the standpoint of constructive customer relations, may make up in part for the loss of the face-to-face contact of customer and banker. To the alert teller this personal contact has presented the opportunity to exchange pleasantries and for the sale of additional services. This contact, however, has not always been an unmixed blessing because of an occasional and perhaps unwitting clash of temperament between customer and teller.

If one were given to sheer speculation, he might visualize the time when deposit banking might become impersonal and almost entirely a matter of dropping a sealed envelope into a slot, with only a few windows provided in a bank lobby for the other types of banking, such as withdrawals, payment of bills, collections, sale of travel checks, drafts, etc.

ILLINOIS BANKERS

J. F. Schmidt, vice-president of the State Bank of Waterloo, is the new president of the Illinois Bankers Association

Branch Banking

IT has become fairly common, at least in the larger cities where a bank may have numerous branches, to concentrate, either in territorial centers or in home office, depositors' ledgers and statements, loan records, records of securities held in safekeeping, and the general ledger accounts.

Such operations as blocking and proving of deposits are also sometimes centralized, and securities held in safekeeping for various branch customers

(CONTINUED ON PAGE 56)

OPERATIONS

(CONTINUED FROM PAGE 55)

are likewise kept at centralized points or at head office, for account of all branch customers.

Where branches are small and territorially concentrated, there are virtues in centralization of record and of operation, and there are economies in that method, though a bank in undertaking centralization must ever be mindful of the requirements of customer service. It depends a good deal upon the policy pursued by the bank in branch operation.

Banks which prefer to operate relatively few but sizeable branches, through each of which substantially all banking services are rendered and the management of which is reasonably independent of head office, will probably find little if any value in centralization. Customers' service is certainly more direct and expeditious when all local loans and their records, and safekeeping securities and their records, are maintained in the office with which the customer has his contact.

That is not to say that additional records may not properly be maintained by head office.

Some banks prefer to have clearings and transit items handled direct by branches without going through head office. That is a measure of further independence in branch operation. Others will prefer that branches in handling outgoing clearings and transit items make only primary classifications, and that from that point clearings and transit items come through head office. There is no outstanding virtue in any one of these methods under discussion. Each bank will have to work out its own methods based upon policy, distribution of branches, size, and the like.

Public Relations

THE fundamental basis of public relations is understanding between the public and the bank—appreciation of the needs of depositors, and their knowledge of how their bank is meeting such needs. When the public recognizes that an institution is composed of men of understanding and consideration, a long step has been made toward building good will for the bank. Reliable information must be supplied to maintain mutual confidence.

Any institution desiring to build its business should first consider its product. The product that the bank has to sell to the public is service. That service should be made as efficient as possible before attempting to increase its sale. Bank service is a product differing from that of almost any other type of commercial concern. Take our standard commodities, for instance. They are manufactured by well defined rules and regulations. There is a demand for them before they are manufactured; their value is known; they had to be *sold*, or there would be no reason for manufacture. That they were sold and are being sold is the result, first and always, of high quality. Our product is only as good as our ability to satisfy. Furthermore, bank service is an intangible, and as such is the most difficult type to merchandise.

Most of the daily customer contacts in banks are by the operating personnel, particularly the tellers, to whom at least 90 per cent of the clients go without seeing an official. It is the staff's responsibility to provide the "service" which banks advertise. Obviously, therefore, their understanding of the bank's policies and condition is of prime importance.

Salesmanship plays a large part in the development of business; that, and the ability to make customers feel personal interest in them as individuals. All banks have the same services to offer. And if a bank knows how to obtain new accounts, it must also know how to keep them. This means being in close touch with their activities and maintaining relationships which make customers feel that they would not want to do business with any other institution. There are few better ways to promote good will and interest in a bank than personal calls by senior officers.

The officers of a bank should miss no opportunity to reflect the conduct and structure of their institution. It is known that sound management principles are essential for the successful operation of any bank. But does the public know how such principles differ from bank to bank? They won't unless they understand them. The individuality of an institution must be developed to make it stand out from its competitors.

Banking Trends

MEMBERS of the Wisconsin Bankers Association have received from their bank management committee two sets of graphs offering comparisons in banking trends over an 8-year period, ending 1935.

For the purpose of the study, which

(CONTINUED ON PAGE 58)

OPERATIONS

(CONTINUED FROM PAGE 56)

was made in cooperation with the School of Commerce, University of Wisconsin, the banks were divided into 10 classifications on the basis of total resources at the end of 1927. Graphs were prepared for each group, together with an additional chart for the combined groups. One set traces an 8-year trend in dollar amounts of (1) resources; (2) loans and discounts; (3) investments; and (4) earning assets (the total of 2 and 3). A second set compiled in similar manner indicates trends for a like period in percentages of (1) earning assets to resources; (2) loans and discounts to earning assets; and (3) investments to earning assets.

In transmitting the graphs to the members, the committee said:

"By a careful study of the two sets of charts you will find some interesting comparisons. To guide your analyses of these figures and percentages ask yourself the following questions:

"How has the volume of total resources in your size group been affected throughout these years? How does this same movement in other size groups compare with that in yours?

"What has been the effect of this movement on the profit picture of the banks studied?

"Has the volume of earnings assets (that is, loans and discounts, plus investments) followed this same movement? Does the same apply to the other size groups?

"What has been the general trend of the volume of loans and discounts in your group and in all the groups?

"What has been the trend in volume of investments in your group and the other groups?

"What has been the effect on the profit picture of banks as result of the declining ratio of total earnings assets to total resources?

"What is the significance of the decline in loans and discounts as compared with the upward trend in investments?

"Have the tendencies observed in your size group been confined to your group alone or have they been substantially the same in all groups?"

When the charts had been distributed the bank management committee offered to provide analyses on the individual bank basis, taking the report figures submitted by an institution and making an analysis in comparison with groups of Wisconsin banks of similar size and character. This service was offered free to institutions interested.

AIR CONDITIONING

—*not a speculation, but an Investment!*

DELCO-FRIGIDAIRE automatic cooling, heating and conditioning equipment... "Products of General Motors" that are changing property values and retail buying habits overnight.

Frigidaire *Controlled-Cost* Air Conditioning builds summer profits and year 'round good will

Air Conditioning is here—not "just around the corner"—not "the next boom industry"... but an accomplished and practical fact today!

To the man who is building, it means insurance against the risk of his property becoming obsolete overnight.

And to the sound, far-seeing business man it is a powerful bid for public favor—for a larger share of today's increased spending... a sound and profitable investment.

The General Motors conception of air conditioning is a year 'round matter. Summer air conditioning, which in its effect is chiefly cooling, is based on electric refrigeration.

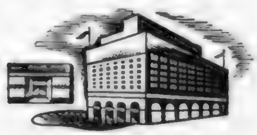
For more than eighteen years, General Motors has been building Frigidaire electric refrigerating equipment for stores and homes.

General Motors developed Freon... the cooling fluid on which modern, low-cost safe electric refrigeration is founded... and on which modern air conditioning is based.

General Motors developed finned cooling coils and compact compressors which set new standards of efficiency... in electric refrigeration and, therefore, in air conditioning.

And it is this experience which has now put air conditioning on a business-like basis... has made possible, in short, Frigidaire Controlled-Cost Air Conditioning.

No two stores or rooms are alike in size. Few are alike in other conditions affecting air conditioning. Most jobs require special handling.



With Controlled-Cost Air Conditioning you know what you are getting—what it will do for you—and because you know, you can control the cost. You get more cooling with less current consumption. You get the kind of system that best suits your building... whether new or old... owned or leased. And you get the degree and the amount of air conditioning your business needs.

If you own a store—or hotel—or theatre—or any other business establishment, Controlled-Cost Air Conditioning will do the exact job you need done, protect your investment, and pay you back its entire cost through increased profits.

But air conditioning does not mean simply summer air conditioning.

You've heard of General Motors' achievement through its Delco-Frigidaire Conditioning Division in bringing automatic heat into the average home.

If you have built a home—or are building—you know of course, about the Delco Conditionair—a complete heating plant that air conditions, too—yet costs not a penny more than automatic heating alone.

Whatever your interests—whatever your problems, it will pay you to talk to Delco-Frigidaire.

Mail the coupon today.

KEEP COOL ALL SUMMER LONG

with this Frigidaire Electric Room Cooler

Costs only a few cents a day to operate... ideal for office or bedroom... quiet, trouble-free, *PROVEN.* All cooling equipment is housed in attractive cabinet, as illustrated... no extras to buy... quickly installed. Mail the coupon for complete information... today!

More in use than all other makes combined!

MAIL THIS COUPON TODAY!

DELCO-FRIGIDAIRE CONDITIONING DIVISION
General Motors Sales Corporation
Dayton, Ohio (Dept. B-7)

Please send me complete information about:

- ☐ Frigidaire **Controlled-Cost** Air Conditioning for banks.
- ☐ Frigidaire Electric Room Coolers.

Name __________

Address __________

City and State __________

It Pays to Talk to

DELCO-FRIGIDAIRE

The Air Conditioning Division of General Motors

AUTOMATIC COOLING, HEATING AND CONDITIONING OF AIR

204 Federal Savings and Loan Associations

A SUBSTANTIAL increase in Federal savings and loan associations of larger size is reported by the Federal Home Loan Bank Board. Associations with assets of more than $1,000,000 numbered 204 early in June, a gain of 87 in a nine-month period. The 204 were situated in 33 states; 18 of them had assets exceeding $1,000,000 and five of more than $10,000,000.

Ohio had 39 Federal associations with assets in excess of $1,000,000, seven of which exceeded $5,000,000. New York State came second with 20, two of which exceeded $10,000,000. Illinois and California were tied for third place with 17 each.

Massachusetts had 13, one of more than $10,000,000. Kentucky ranked next with 11, while Indiana had 9, one with assets of more than $10,000,000.

Oklahoma followed with eight; Missouri and Washington with seven, one in Missouri having more than $10,000,000. Florida had six, Michigan five; Tennessee, Texas and Minnesota four each; Maryland, Pennsylvania, Louisiana and Utah three each; Georgia, Iowa, Nebraska, North Carolina, Oregon, Virginia, and West Virginia two each; Arkansas, Colorado, Connecticut, Kansas, New Hampshire, South Carolina and Wisconsin one each.

During April, 1,168 Federal savings and loan association members of the Federal Home Loan Bank System made loans totaling $31,184,300, a new record and a gain of $4,615,100, or 17.4 per cent, over the previous high of $26,569,200 in March. The largest monthly total prior to March was $22,757,200 last October, with 1,080 Federal associations participating.

The net total of loans outstanding by the Federal associations on April 30 was $652,556,500, a gain of $21,876,600, or 3.5 per cent over March.

Mortgage loans made by 293 reporting state-chartered insured savings and loan associations also reached a new high in April of $9,333,000, a gain of $1,035,500 or 12.5 per cent over March. The previous peak was $5,545,500 reported by 198 institutions last December.

The net total of mortgage loans reported by the 293 state-charted associations was $267,833,100 on April 30.

D. OF C. ASSOCIATION

Thomas J. Groom, vice-president and cashier of the Bank of Commerce & Savings, Washington, D. C., has been elected president of the District of Columbia Bankers Association

The Undistributed Profits Tax

RECOMMENDATIONS for modification of the tax on undistributed earnings of corporations were submitted to the Treasury Department, the Ways and Means Committee of the House and the Senate Finance Committee by the committee on Federal taxation of the Investment Bankers Association of America.

James J. Minot, Jr., of Jackson & Curtis, Boston, chairman of the committee, emphasized that the recommendations were designed only to mitigate the consequences of the tax which "we believe strongly to be an unwise one even if all our suggestions are accepted." The statement accompanying the recommendations, which were approved by the association's board of governors, said balancing of the Federal budget was "imperative" and added that if governmental expenditures were not reduced, an increase in other forms of taxes should be the alternative.

Examples of the harmful effects of the undistributed profits tax submitted by the committee included the following:

1. Corporations which have suffered severe losses during the depression and now are penalized by inability to retain all earnings in order to recoup previous losses.

2. Corporations which have incurred deficits making it impossible to pay dividends under the laws of the states of their incorporation.

3. A corporation where changing conditions make it necessary to retain a large proportion of earnings to finance new equipment purchases.

4. A corporation having sinking fund requirements to meet on which there is no definite assurance that they can be considered a deduction, in whole or in part, under the law.

5. A corporation engaged in mining which can never escape some tax on undistributed profits owing to its depletion account.

6. A corporation, small in size but growing, which cannot expand practically except through reinvestment of its earnings.

Stressing the interest of investment bankers in the effect of the tax on the credit structure of corporations, although citing as well its "tendency to make booms bigger and depressions deeper," the committee recommended specific exemptions for: Companies in weak financial condition; those with deficits which make the payment of dividends illegal under state laws; those which can reasonably prove the need of credits for expenditures for rehabilitation as distinct from new plant expansion; those whose losses over a period of years have exceeded their gains.

Additional recommendations were: That corporations with small earnings should receive special treatment; that there should be a clarifying amendment so that sinking fund payments, whether a fixed amount or a percentage of earnings, can be considered as a deduction; that no tax on undistributed earnings should be imposed on corporations paying out 80 per cent of their net earnings after allowable credits; that corporations should not be forced to guess their earnings and should, therefore, be given at least three months after the close of their fiscal year to pay a final dividend which would be counted in determining what, if any, tax on undistributed profits they should pay for the previous year.

Merging and Migrating

THE National Association of Supervisors of State Banks is undertaking, with the assistance of the F.D.I.C., a nationwide survey with a view to encouraging consolidation, merger and actual migration of banks in the interests of better banking.

This announcement was made by Dr. Luther A. Harr, chairman of the association's executive committee and Secretary of Banking of Pennsylvania.

In explaining the survey Dr. Harr said state bank supervisors throughout the country were well aware that often two banks might be struggling to exist in a community where one bank could be healthy and profitable.

"If both banks," he said, "continue operations in such a community both ultimately would fail. In such cases, state bank supervisors are urging that the two banks consolidate or merge; the community would be better served and stockholders earn a profit on their investment."

The migration of a bank presents a bigger problem, but this step is being advocated, the announcement stated, "where a community is on the downgrade and the local bank must ultimately fail."

"Pennsylvania already has witnessed such a case of migration," Dr. Harr said. "In this instance, a bank which had enjoyed a prosperous past was located in a mining community which is on the downgrade and it was only a question of time before the bank would have been obliged to fold up.

"The bank's officials and the Department of Banking surveyed the field and found that by moving the bank 30 miles to another town, it not only would serve a bankless and growing community, but continue to serve its old clients and make money. The migration was effected, the bank again is on the way to a profitable career and a greatly enlarged community is enjoying better service.

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FOREIGN TRADE

W. F. Gephart (below), vice-president, First National Bank in St. Louis, has been elected a fourth time (1927, 1928, 1936, 1937) to the presidency of the Bankers Association for Foreign Trade. Vice-presidents are J. C. Rovensky, Chase National Bank, New York, Harry Salinger, First National Bank, Chicago, and W. A. Mitchell of J. P. Morgan & Co., New York. The secretary is R. T. White of the Cleveland Trust Company and the treasurer Victor J. Usher, Mellon National Bank, Pittsburgh

(CONTINUED FROM PAGE 65)

"Much of the difficulty would not exist today if there had not been unwise and indiscriminate chartering of banks in past years. The National Association of Supervisors of State Banks some time ago went on record against the chartering of unneeded banks or of banks being promoted by individuals whose experience or past training make them unfitted to manage banks. We particularly resented some chartering permitted by the national banking system, not because they were banks which did not take out state charters, but banks which could not get them."

No Lack of Gangsters

THE report of the protective committee, New Jersey Bankers Association, submitted to the annual convention in Atlantic City by Percy B. Menagh, secretary-treasurer of the United States Trust Company, Newark, contained the following comment:

"Do not bask in the sunshine of a fool's paradise. New gangs are formed to take the place of those who remain in jails, and weak parole laws and pardoning courts soon enough permit them to get out and renew their efforts. There are always those who are planning and working to outwit the careless bank. In many instances those banks which have been careless, and exposed themselves to attack by the bandit, have profited by their experience; but it must be noted that a number of banks have been held up a second time by a new gang, proving that the ranks of the bank robber seldom lack replacements. Noteworthy, also, is the fact that the large percentage of bank robberies has been perpetrated against banks which are not members of the American Bankers Association.

READ THE *BULLETIN*

"I URGENTLY request you to look over the American Bankers Association bank inspection report, which shows up the many weaknesses of attack to which a bank is subject. Again, the *Protective Bulletin* of the Association keeps you and your tellers posted on the latest modus operandi of bank crooks. While the local and state police have assisted in driving criminals from our state, and the secret service has helped our institutions in lessening the number of counterfeiters, what have we done as individual banks to put our places in order so that when we are attacked we will stop or hinder the intruder; or will we have done nothing, and look to the insurance companies to pay?"

OHIO BANKERS

H. L. Wilson, cashier of the Citizens National Bank, Sidney, is the new president of the Ohio Bankers Association

The Stock Transfer Maze

WITH nearly one-half of the wealth of this country represented by stocks, the registration and transfer of stock certificates has become highly specialized, as complex and exacting a procedure as the examination of real estate titles. A bank can render a community a valuable service by helping depositors understand that the correct registration of their stock certificates is as important as a clear title to the homes in which they live. Because of the inability of many people to visualize the physical assets back of their stock certificates, they are very much amazed when they attempt to transfer one in the name of a deceased person and find that they must meet a large number of exacting legal requirements before the stock can be transferred to the heirs.

ONE COMPLICATED CASE

MANY attorneys, unless they have had experience in handling securities, are unfamiliar with the requirements for the transfer of registered securities. The writer recently completed a transfer for a person who had gone to his attorney and stated that he wished all the stocks he possessed to go to his sister at the time of his death. The attorney instructed the man to sign the stock certificates and leave them in his safe deposit box, and informed his client that the securities could be transferred to the sister without probate procedure or the necessity of furnishing legal papers. In due time the owner of the stock certificates died and the stocks were brought to the writer for assistance in transferring them. Due to certain technicalities in the will, it was necessary to spend $1,250 for legal expenses out of a $13,000 estate before we could get the certificates transferred to the rightful heir. It is a situation similar to that of the research doctor whose field is biology but who must go to his colleague the surgeon for medical attention. They are both doctors, but specialists in different fields.

Because of the constant changes in the transfer laws of various states, it is advisable for a bank to appoint one person to handle its stock transfers, and those of the customers who request assistance with stock transfer problems. There are various stock transfer services published by statistical houses which are valuable in helping to keep abreast of changes in state and Federal laws.

STEPS IN TRANSFERRING STOCK

IT may be of interest to note a list of the papers which are required to transfer 10 shares of Southern California Edison Company stock registered in the name of a deceased person: (1) certified copy of the will of the deceased; (2) certificate of executor's appointment, dated within 60 days; (3) affidavit of domicile; (4) debt affidavit; (5) California tax waiver; (6) state and Federal transfer taxes.

Many individuals are very much surprised when they learn that they must pay stock transfer taxes in addition to inheritance taxes.

If a person desires another individual —a wife, son, or daughter—to have his stock at his death, the certificate may be registered in the name of "joint tenants with the right of survivorship and not as tenants in common." If these are the only assets the deceased person possessed they may be transferred without the necessity of probate procedure by

By **FRED F. McLELLAN**

merely furnishing a death certificate. This is a type of registration applicable to married persons of moderate means having no children and desiring the survivor to have the stocks upon the death of either party.

Certain banks form voluntary partnerships within the bank and have securities which they hold as collateral, in trusts and agency accounts registered in the names of nominees. This is done to facilitate transfers in event of investment changes and to eliminate the cost of legal papers required by transfer agents when securities are registered in the name of an individual trustee. I have just completed a transaction where a trustee wished to dispose of a stock worth $100, registered in the name of a trustee. In this case it so happens that the will is 18 pages long. In order to obtain the will it is necessary to pay the probate court $8.80 for a certified copy plus 50 cents for a certificate of the executor's appointment. The brokerage fee is $3 and the transfer tax $6. Here you have a case where the cost of executing a $100 order is nearly 20 per cent of the total worth of the security sold. Had this stock been registered in the name of a bank nominee, the total cost for this sale would be appreciably lessened. In transferring 40 or 50 stocks of various companies it is obvious what a large expense legal papers may be. There are certain decided advantages for banks in registering stocks which they hold in trusts in the name of nominees.

KNOWLEDGE ESSENTIAL

FAMILIARITY with the intricacies of stock transfer and the correct forms of registration is particularly important to loan departments in the habit of lending against negotiable securities.

In 1909 twenty-six of our states adopted the Uniform Stock Transfer Act to promote uniformity in state laws regarding stock transfers, and, although these laws are at present operative, there is an astounding variance in the requirements of transfer agents. The larger New York and Chicago transfer agents for the big corporations of the United States have widely differing requirements. The various stock exchanges have adamant rules concerning assignment forms, guarantees of signatures and rules of delivery. Familiarity with the requirements of the transfer agents and the rules for delivery will well repay the bank for the time spent.

The Ambiguous

By A. E. AMBROSE

DOCUMENTARY letters of credit are to world commerce what windshield wipers are to cars, or frankfurters and peanuts to baseball—not absolutely essential but nevertheless regarded by most interested persons as necessary parts of the whole. Their use is universal, and their chief "producers" are the banks of New York and London. Consequently, one would expect to find a similarity of treatment in those two centers equivalent to that existent between, say, the Ford factory at Dearborn and the Morris factory at Cowley in England. Because such similitude is non-existent, and because this fact is too little appreciated generally, attention is here drawn to the major differences of practice and definition.

For example, in America the terms "confirmed" and "irrevocable" (and their opposites) are distinct and separable. Any distinction between the terms is unknown in England. There, the synonymity of the terms has been recognized on numerous occasions by the judiciary and is consequently indisputable and legally binding.

There is in England nothing equivalent to the list of regulations affecting export commercial credits which was adopted by the New York Bankers Commercial Credit Conference in 1920. Each bank over there is a law unto itself in such matters. Fortunately, however, partly because of decided cases, partly because of the application of common sense to the question, each adopts the same attitude on all major points, with the result that it is possible to affirm authoritatively the British banks' practice regarding such points, and thus to compare it with that of the New York banks' as set out in the list referred to. A convenient way of doing this is to proceed through a copy of the American regulations, picking out the points of difference *en route*.

The first of importance that we come to concerns section 5d of the list of regulations as amended to March 1934. This provides that:

> "When 'Ocean' bills of lading are required, unless otherwise stipulated, we will accept 'Received for shipment' or 'Alongside' or 'Port' or 'Custody' bills of lading. 'On board' bills of lading will not be demanded unless expressly required even though the credit mentions the name of a steamer."

In England, the reverse is true. "On board" bills of lading will be insisted upon unless the credit provides specifically to the contrary. The banks adhere strictly to this rule because decided cases have affirmed that a "Received for shipment" bill of lading is not a bill of lading within an ordinary c.i.f. contract in that country.

Reading on, we come to section 5f, which states:

> "Documents for partial shipments may be accepted unless expressly prohibited. Even though the credit mentions the name of a steamer, a partial shipment or shipments by that steamer may be accepted."

Diametrically opposed is the English procedure of refusing to accept partial shipments, unless specifically authorized.

It is customary in the British Isles to treat letters of credit dated to expire on a Sunday or legal holiday as expiring on the preceding day. In this country, however, it is stipulated by section 5j of the list under consideration that:

Letter of Credit

"When the indicated expiration date for presentation or negotiation falls upon a Sunday or legal holiday, the expiration is extended to the next succeeding business day. (This rule, however, does not apply to date of shipment.)"

There is one clause, section 5p, which starts by prescribing for the States the English understanding of the point, but concludes by tacking on an extension which is not recognized in the United Kingdom:

"The terms 'Approximately', 'About', or words of similar import shall be construed to permit a variation of not to exceed ten per centum.

"When the merchandise, by its nature, does not allow the delivery of the exact quantity indicated, as, for instance, metal bars, oil in barrels, etc., a leeway of 3 per cent more or less will be allowed, even if the terms of the credit call for a fixed weight or measurement."

As already indicated, the 10 per cent allowance accords exactly with the English interpretation of the term "approximately" as applied to letters of credit. The 3 per cent variation, however, is definitely not acceptable to an English bank.

That insurance certificates are a good delivery under a letter of credit in this country is provided by section 5q. Decided cases in England make it abundantly clear that such documents are not a good tender under an ordinary c.i.f. contract there, for which reason the banks in that country necessarily refuse to accept any insurance document other than a policy, unless specifically authorized so to do in the relative authority.

AMERICAN REGULATIONS MAY BE WAIVED

CLAUSE 6 of the American list might easily become a bone of contention between an American and an English bank. It provides that:

"Correspondents will understand that the above regulations shall govern in all credit transactions in the absence of other specific agreements. If the beneficiary shall make representations, or shall offer security satisfactory to the bank that no loss shall result to its correspondent or client by the waiver of any of such regulations, or any instruction, the bank reserves the right to make such waiver, and shall recognize no claim in the premises unless substantial direct damage shall be shown to have resulted."

To grant a beneficiary's request not to comply with the accepted interpretation of a term appearing in a letter of credit is entirely contrary to English practice, even though the beneficiary be required to put up satisfactory security to cover any possible loss his non-compliance might cause. If, under this rule, documents which did not conform strictly to the terms of the relative credit were taken up by an English bank's American correspondent, in case of dispute the English bank would in all probability claim that it had given a direct and definite mandate, the terms of which could not be varied without its consent, and that, if the American correspondent chose to permit a deviation from the terms of the authority without obtaining the prior consent of the issuers, it must accept responsibility for any consequences whether or not they amounted to substantial direct damage. This argument would be of no avail, however, if the American bank could prove either that it had notified the issuers that section 6 would apply unless the contrary were specified in any particular case, or that the proviso constituted an established mercantile custom.

Trends in New Financing

AN interim report by the industrial securities committee of the Investment Bankers Association noted a substantial increase in the amount of "new money" financing during the six months ended March 31 and anticipated a continuation of new offerings in good volume.

The report, by Karl Weisheit of Edward B. Smith & Company, New York, as committee chairman, called attention to a "radical change" in the half year period wherein 63 per cent of the aggregate proceeds of all industrial financing represented new capital. In the first nine months of 1936, he pointed out, only 30 per cent was new capital. It therefore appears, he added, "that in the industrial field at least a long-awaited development may be at hand."

The committee also stressed the recent predominance of common stock financing by industry.

"Common stocks issued during the six months amounted to $278,000,000, or nearly 41 per cent of all new industrial issues; moreover, bonds and preferred stocks having equity privileges accounted for an additional 25 per cent," the report stated. "Despite the short period surveyed, these figures reveal a sharp upturn in the curve of a trend which has been developing slowly for a couple of years, and the figure of 41 per cent is in contrast with the 10 per cent reported at the association's 1936 convention for the first nine months of 1936 and the 1 per cent reported for the first eight months of 1935."

FAVORABLE OUTLOOK

SEVERAL elements working toward the increase of "new money" financing may well continue for some time, the report asserted.

"Foremost among these is the necessity for more production facilities caused by rising demand, the development of new products and processes, and the normal capital goods replacement accumulated during the depression years. Of more recent origin is the fact that the financing of inventories is requiring larger amounts of capital. Expanding sales and production are necessitating greater physical volume of inventory, and, at the same time, commodity prices have been showing a strong upward tendency which has been interrupted only in the last few weeks. This combination of higher volume and price, together with rising labor and other costs, if continued may cause some corporations to resort to the sale of securities in order to obtain the necessary additions to working capital."

Reasons for the increase in common stock financing were not hard for the committee to find.

"The most obvious are the related factors of increasing earnings and rising share prices which make such offerings more and more attractive to sellers and buyers. It is also likely, however, that good judgment on the part of management and sound advice from investment bankers have had a wholesome effect in encouraging the sale of stock at a time when bond financing could be done at low cost." It was pointed out that in some instances corporations have even sold common stock in order to retire bank loans and other short-term obligations bearing low interest.

Green Pastures

FOR a number of years one southern bank had advocated an expansion of the dairy industry in its section. By newspaper advertising, circular letters and personal contacts with farmers of the community, the bank was successful in stimulating widespread interest in the project. The result was highly satisfactory and all the banks of the district made profitable loans for the construction of milking barns and for increasing and improving dairy herds. Today there is scarcely a farmer in the community who does not receive a monthly cream check. Incidentally, the development of the dairy industry has also brought a creamery and a cheese factory to the banking center.

Because unusual grazing lands were at hand, the livestock business had long been considered a profitable one in the section. A difficulty, however, was the distance to the market. To overcome this obstacle the livestock breeders sought to bring the market to their own community.

With the cooperation of the banks, the chamber of commerce, business men, and farmers, a corporation was organized last year for the purpose of building a stockyard in the community to serve the small breeder as well as the large stockmen.

Non-transferable shares were sold at $100 each and the building site was purchased from a railroad for $1,200. The building contained 50 pens, a show ring, and seats for buyers and spectators. It cost $7,500.

Auction sales of livestock are held every two weeks and many of the large meat packers participate. At the peak of the season an average of 1,000 head of cattle are sold at each sale. The market has now become one of the best in the South.

Cattle, hogs and sheep are sold at commissions ranging from 25 cents to $1 per head.

Benefits from the venture have been numerous. A ready market is maintained with good prices. Most of the money received from the auction is spent in the local community and finds its way into the banks. By selling odd lots of livestock the farmers receive cash which they can use to improve their herds.

SOUTH DAKOTA BANKERS

The new president of the South Dakota Bankers Association is J. R. McKnight, president of the Pierre National Bank, Pierre

What Local Bank News Is

IS your bank getting its full share of editorial space in your local papers? If not, then perhaps it is because of a wrong attitude on your part toward the question of newspaper publicity. Many bankers and businessmen are inclined to take these wrong viewpoints.

In the first place, there are those who seem under the impression that they can get sufficient news space in local papers to warrant the elimination of most or all advertising. Such an attitude naturally, and rightfully, antagonizes the editor and business manager of the paper, for both are thoroughly familiar with this game. It has been attempted countless times, and newspapermen know it by heart.

NEWSPAPERS NEED EARNINGS, TOO

A SIMPLE explanation of the newspaperman's viewpoint should suffice to clear up this question. If it were not for the advertising revenue, no modern newspaper could long exist. If the editor permits any businessman to get by with a lot of free publicity and no advertising, he is merely courting a mass attack of similar nature from all merchants in the city —with the natural result that most advertising will soon be eliminated, and the paper forced into bankruptcy.

Naturally, even though a bank is not a regular advertiser in a paper, no editor will turn down a story from it that has real news value. However, it is foolish, very unfair, and usually useless to bombard an editor with mere publicity if the bank never spends a penny for advertising with him.

The second phase of the wrong attitude which accounts for many banks getting less news coverage than they deserve is a position taken by many bankers. Because they advertise regularly in the local newspaper they confidently expect the editor to use any news story they send in—regardless of its real news value. This has a triply unfavorable reaction. First, an uninteresting item—especially one which is, very obviously, merely a "plug" for some bank—brings about a certain amount of distaste, even disgust, for the entire newspaper in the average reader's mind. This lessens reader interest in the news columns, and even in the advertisers' messages in that paper. Secondly, such an item does little if any good for the bank. In fact, it is apt to do more harm than good, for the public is quick to recognize and resent such obvious propaganda. People don't like that sort of advertising shoved down their throats or forced to their attention under the guise of news. Lastly, a constant bombardment of the editor with such news-valueless material will tire him to the point where his natural reaction is to look at anything the bank may send him with suspicion—if he looks at it at all.

Of course, no editor worthy of the name will use uninteresting news items, even to retain advertising in the pages of his paper. And he should be commended, not condemned, for this. Such an attitude on his part is just as good for the advertisers as for the readers and the paper itself. By carrying only real news in his paper, the editor makes more certain of reader interest—not only in the news columns but in the paid advertisements.

The main thing to remember, if you desire publicity for your bank, is to send only really interesting news items to

By R. E. DOAN

your paper. And it is here that many bankers fail—for they lack a feeling for news values, a "nose for news".

A stockholders' meeting, an enlargement of the bank's quarters, a reduction or increase in interest rates, a declaration of dividend, retirement of R.F.C. preferred stock—to the average banker these and a few similar stock subjects comprise the extent of material for news items about his bank. In most cases such items are worth a few lines in a newspaper, but by no means are they all that a bank has in the way of news, nor are they always the most effective publicity items. The banker should realize that most subjects of this nature are of interest only to a limited number of readers. Consequently, even though they should, and generally do, find a place in the paper, they will not be given very good position or much space. Neither will they be widely read.

People are interested in people and in subjects of general human interest, and it is up to the banker to cultivate a news sense in his bank, and the knack of presenting that news in an interesting manner, if he is to gain good position and wide reader interest for his bank's publicity.

The promotion of someone in the bank can be made a really interesting item and get some space by the use of a photograph of the person and a few of the more interesting details of his career, education, club affiliations, hobbies, etc. An address made by one of the officers before some civic group can be made news in many cases by pointing it up and bringing out the news angles; the marriage of an officer or employee, the election of an officer or employee to official capacity in a local or national club or association, a personal achievement by some member of the organization, details regarding unusual hobbies—these and countless other subjects can be made into news items or features which any editor will be eager to get if they are handled well.

DON'T OVERLOOK RADIO

AS to receptive media, most bankers remember the local papers, regional magazines, etc., but frequently overlook radio. It will generally be found that local broadcasting stations will cordially welcome news items from your bank, for in many cases their reportorial staffs are not as large as those of the daily papers, and they therefore have need for items of a truly local and interesting nature.

In the national field, which is also often overlooked, a glance through the pages of various large New York City newspapers, national financial papers and many national banking magazines will show that these pages are always open to items of real general interest. The financial pages of New York papers frequently carry news stories regarding banks throughout the country, and the national banking papers and magazines are always seeking real news-interest stories of banks everywhere. Naturally, a story of merely local interest would be wasted if sent to any national publication. However, many of the things which occur in any bank—many innovations in service and many thoughts contained in public addresses—are worthy of national circulation. They will get it if they are brought to the attention of the right publications and with the right presentation.

Payrolls Are News, Too

MEMBERS of the Financial Advertisers Association have received from Preston E. Reed, the association's executive vice-president, copies of a folder "Let's Have Sense as Well as Dollars in Annual Reports", by Donald Despain, a Chicago public relations counsel.

Mr. Despain's point is that corporation earnings statements, as they are usually released, tell only half the story.

"Why," he asks, "tell only what stockholders were paid and nothing about the huge sums paid to employees?"

Newspaper headlines announce that such-and-such a company reports the largest profit in its history, so much a share on the stock compared with a smaller amount the previous year.

"Those headlines," observes Mr. Despain, "tonight, tomorrow night, and for many nights will be waved and read and quoted from platforms in strike headquarters and worker meetings as proof—positive proof—that 'you should strike', that 'you are not getting your share', that 'all the capitalist thinks about is profit, not worker welfare', that 'the rich are getting richer and the poor poorer'.

"Why? Because the truth has only been half told. The most important part of the report has been omitted, the best feature of the announcement buried. This is an era of powerful psychological reaction. Mass psychology rules. People aren't thinking, they aren't searching behind the headlines for facts. They read what they see and hear what they're told.

"Why not, in this era of mass hysteria, tell them *all* the truth about corporation affairs and operations. Why play into the hands of the agitator and spell-binder by putting super-emphasis on profits? Why not put equal emphasis and devote equal headlines to *wages paid?*

THE PLACE FOR EMPHASIS

MANAGERS of corporation publicity and directors of industrial and public relations have a real opportunity here and a constructive job to perform. The press would and will cooperate if those announcing the news to the press and the public would present the reports with emphasis where it belongs and insist upon the emphasis being kept there.

"If report after report appearing in newspapers day after day, month after month, could be advertising the fact that 60, 65 or 70 per cent of gross income of corporations was paid to workers in wages, instead of dollars per share to stockholders, we would soon create different impressions and a more healthy kind of thinking and public attitude toward business institutions."

In calling attention to the folder, Mr. Reed wrote to the members: "Perhaps the inference might also be made that publicizing the fact that banks are declaring extra dividends on bank stocks should be looked at carefully before too much publicity and agitation is started. Also, an over-emphasis on increasing deposits, unless explained in publicity items, might be considered by the man on the street as a sign of increasing profits for the bankers. Of course, they know nothing about how a bank makes money. As long as it has a lot of deposits they think there is some mysterious way profits can be made from them."

Embezzlement by Women

THE United States Fidelity and Guaranty Company of Baltimore, which early this year published a study of the case histories of 1,001 embezzlers (see January BANKING), recently completed an inquiry into embezzlement among business women. Cases of 400 women employees who took $1,293,201.49 were examined.

"Although the motives impelling the male employee and the female employee to embezzle may differ somewhat in form," says E. Asbury Davis, president of the Company, "they are substantially similar, and the opinion would seem to be confirmed that neither sex has a monopoly on honesty or dishonesty."

Of the 400 women, 191 were married, 139 were single, 44 were widowed, and 26 were divorced or separated. One hundred seventy-nine embezzled for the benefit of others, at least in part. Drink, gambling and speculation were minor causative factors. Approximately one in every 10 absconded before or when the stealing came to light. There were many instances of collusion but few of suicide. So far as ascertainable, none of the 400 had a college education. The average age was 35.5 years.

As to type of employment, the case histories fall into five general divisions: mercantile establishments, 239 cases; banks, 41; public offices, 22; post offices, 35; fraternal societies, 63. Amounts less than $1,000 were taken by 263 of the women; 123 were between $5,000 and $10,000; 15 were more than $10,000 but less than $50,000. One woman in public office defaulted to the extent of $145,000 and a business woman took a quarter of a million. Nearly one-quarter of the women—22.5 per cent—apparently did not need to work, as husbands or families seemed able to support them.

The 400 were mostly employees with long periods of service, the average being 5.38 years. One woman had served 47 years; one a single day. The period in which the embezzling took place averaged a year or two. Many faced with emergencies embezzled over a short period and then spent several years vainly trying to replace the money.

"Practically the same conclusions can be drawn in this study as in the study of 1,001 embezzlers," the company reports. "For the most part these women embezzlers had clean records in previous employment, had previously resisted temptation, had intelligence and ability, and had followed the habits of normal living well into middle life. Certainly they were not of the criminal type, only one having a truly criminal history.

"It seems fair to repeat that employees, whether men or women, up to the point where they 'dip into the till' are honest. They consider that they are not stealing, but that they are borrowing for a real or fancied need and have every intention of paying it back.

"No doubt those who became embezzlers had a greater tendency toward dishonesty than those who remained honest. Still, under more favorable circumstances, and with better safeguards, they might have remained honest.

"Embezzling does not appear to be peculiar to either sex. But pure selfishness would seem to motivate women less often. Certainly many of these 400 followed the behest of their emotions and defrauded their employers that others might benefit."

This Month's Authors

JOHN H. FREDERICK (How to Judge Warehouse Receipts, p. 20) is assistant professor of marketing at the Wharton School of Finance and Commerce, University of Pennsylvania.

F. BRADSHAW MAKIN (Post-Gold England, p. 21), who is a Fellow of the Royal Economic Society, has made several contributions to BANKING in recent months.

STEPHEN LEACOCK (The Economic Functions of a Bank, p. 22) writes books and articles, heads the Department of Political Economy at McGill University, and, for recreation, says *Who's Who*, does some fishing, carpentering and gardening.

BANCROFT MITCHELL (Legal Investment Standards Plus, p. 24) of the City Bank Farmers Trust Company, New York, is a Graduate School of Banking student.

E. S. WOOLLEY (Deposits Up but Not Profits, p. 25) is a bank analyst and a regular contributor of articles on management problems.

ROBERT H. MYERS (How Indiana Researched, p. 26), vice-president of the Merchants National Bank, Muncie, Indiana, is also chairman of the research committee, Indiana Bankers Association.

EUGENE P. GUM (The Farmer's Banker, p. 27) is secretary of the Oklahoma Bankers Association.

THEODORE HENRIQUES (Saving on Savings Accounts, p. 28) is associated with the comptroller's department of the Chase National Bank, New York City.

J. W. MILLER (Budgetary Control for Small Banks, p. 30) holds the position of assistant auditor at the Fort Wayne (Indiana) National Bank.

GEORGE E. ANDERSON (Social Security and Bonds, p. 32) is a Washington observer of business, banking and public affairs.

FRED F. MCLELLAN (The Stock Transfer Maze, p. 68) resides in Cambridge, Massachusetts, where he is stock transfer consultant at the Harvard Trust Company.

A. E. AMBROSE (The Ambiguous Letter of Credit, p. 70) is connected with Barclays Bank, Ltd., New York.

R. E. DOAN (What Local Bank News Is, p. 74), former director of public relations, The Denver National Bank, is now on a world cruise.

BANKING'S Contents, July 1937

BANKING'S Advertisers, July 1937

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BANKING'S DIGEST—JULY 1937

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Industrial Statesmanship

THERE must be a return to the orderly processes of government and the re-establishment of law and order. All the lessons of history teach that where property rights become impaired and ignored, human rights soon after are obliterated. Labor, above every other group in the community, has the most to fear and the least to gain from the whims and caprices of those who hold themselves above the law.

On the other hand, we must recognize labor's right to bargain collectively for satisfactory working conditions and for fair rewards for services rendered. We must recognize and defend also labor's right to strike as a weapon of last resort, although due account should also be taken of the rights of others and the interests of the public welfare. The protection of this public interest is paramount and must be protected by law.

When individual businesses developed into corporations and these corporations grew more far-reaching and more powerful, the effects of their decisions were magnified in the way they affected the public interest. It therefore became necessary through legislation and governmental administration to establish both their privileges and their duties and responsibilities.

As labor organizations grow in numbers, and power and influence, it is equally essential that responsibility be fixed and curbs be provided against the arbitrary use of that power in ways that are inimical to the general welfare. Also, now that the right to collective bargaining is incorporated in our statutes, it must take place between responsible parties and be so limited that the public interest is protected, and that the inherent and constitutional rights of minorities are also protected.

Labor leaders who have accomplished most for labor in this country have been those who have regarded their engagements with management with the same sense of responsibility that honorable people have towards private contracts. Just as management of a large corporation is responsible for the acts of its agents, so must labor leaders accept responsibility for the acts of their agents. This calls for discipline among the ranks of labor commensurate with the new and larger responsibilities which labor has assumed and which the law has given to labor.

It is up to both labor and management to see to it in more effective ways than have already been adopted that the respective contributions which labor and capital and management make to a business are understood and recognized. Business cannot exist without labor, labor cannot have jobs without business. It is the duty of management to organize and coordinate the reciprocal services which both capital and labor contribute to business enterprise, and there is a wide field and a great opportunity here for management and labor to progress through enlightenment and understanding of the respective duties and obligations incumbent upon both capital and labor.

Where thousands of men are engaged in industrial operations, differences of opinion are inevitable. What we need is a disposition on the part of industry and labor to see the other fellow's point of view, to welcome the services of competent, impartial mediators in helping to bring that about.

There is an opportunity here for government to perform an important function in industrial relations. In this sense there is need for an approach to this problem on the part of government in a wholly unbiased frame of mind, with the public interest as the paramount consideration and not the cause of either party to a dispute as the determining factor. I think we have to revise somewhat the traditional governmental attitude and machinery in mediating labor disputes. Mediation, in my judgment, calls for the highest type of unbiased and public-spirited service.

People in this country can be trusted to arrive at sound conclusions when they know the facts.

Let us have an arrangement whereby a fact-finding agency may be called into a dispute, be competent to arrive at the facts, be impartial in the presentation of these facts to the public, and then let us have what I would call a cooling-off period, during which the public can make up its mind and the disputing parties can perhaps gain a calmer view of their difficulties.

These simple principles, it seems to me, are thoroughly practicable. I am optimist enough to believe, too, that with such a statesmanlike approach to industrial relations, much of our difficulty will disappear.—P. W. LITCHFIELD, President, Goodyear Tire & Rubber Company, before the CHAMBER OF COMMERCE OF THE UNITED STATES.

Don't Blow on the Thermometer

A SOUND currency should be maintained and should be left alone, since a good currency is like a thermometer; it records the health of business. There is no more reason for attempting to improve business by artificially increasing the currency supply than there is for supposing that one will make the weather warmer when one forces up the mercury column in the thermometer. If a government wishes to aid business recovery, its efforts should be directed toward encouraging and helping producers, not toward blowing hot air, in the form of an inflated currency, on the thermometer of business conditions.

An unsound currency can be a causal factor just as the reading of a broken or disturbed thermometer may excite a person and lead him to make wrong assumptions and to do unwise things. But such a causal factor is a disturbing one, and it leads to unhappy consequences. It does not facilitate or lead to a sound recovery.

The things needed today, in so far as desirable control of our deposit and note currencies is concerned, are these: (1) a balanced Federal budget effected through the reduction of expenditures; (2) a Federal Reserve System freed from Government domination; (3) the proper use of the Federal

Reserve System's instruments of credit control; (4) a determination on the part of the Government to let the prices of its securities find their natural level; (5) a return to a gold standard at the present weight of the dollar; (6) next should follow the dissolution of the Treasury's Stabilization Fund and the assignment of its functions to the Federal Open Market Committee; (7) a repeal of the Thomas Inflation Amendment and the Silver Purchase Act; (8) a cessation by the Federal Administration and Congress of their attempts to direct production, to fix prices, to force prices to a preconceived level, to go into business, to harrass and to coerce legitimate enterprise, and to run everything which happens to come within their purview; and (9) a renewed recognition of the fact that the principles of money and banking which have been derived from long experience are more valuable guides to sound money and banking policies than are will-o'-the-wisp notions that lead hither and thither, and clash with one another and with the tested principles derived from long experience.

Finally, let it be remarked that the commercial bankers of this country carry a great responsibility on their shoulders which they should not hesitate to assume. Their business is affected with a great public interest; therefore they must keep ample reserves against their deposits, and make no loans or investments that will not liquidate themselves under highly adverse conditions. By doing this they avoid inflating their deposits and at the same time they fulfill their appropriate functions in enabling their customers to expand and retire deposit and note currencies according to their needs.

Then the bankers might do well to recognize the fact that being bankers they have unusually important responsibilities to meet as citizens. And I think it may safely be said that their responsibilities, both as bankers and as useful citizens, require that they should make themselves heard and that they should endeavor to correct popular error regarding their proper functions and performance when error, misunderstanding, and indiscriminate abuse of bankers as a class are today so sadly in need of correction.—WALTER E. SPAHR, Professor of Economics, New York University, before the CALIFORNIA BANKERS ASSOCIATION.

No Divine Right of States

THE 20 post-war years have shown that war does not settle the accounts; there is a balance brought forward. When an emancipation is achieved a new slavery may begin.

Freedom for the common men, which was to have been the fruit of victory, is once more in jeopardy, because it has been taken away from the common men in other lands.

You may attempt to explain these 20 years in terms of economics or in terms of politics; some see only the one and some only the other. Some blame the treaty, some the banker, some the statesmen, some the diplomats. Some simplify the causes of the tragedy and make scapegoats of some half dozen prominent figures on the European stage.

But what is clear is that today Europe is neither at war nor at peace, but stands at armed attention. For every soldier who died at the front another is taking his place; for every ship sent to the bottom of the sea another rides the waves, and for every airplane brought down to earth twenty new ones sail the skies. And that in itself is a sufficiently melancholy, devastating reply to all the efforts of the lovers of peace.

But what is worse than this, peace in some quarters is proclaimed as a bad dream and war is glorified as an ideal for rational men. As long as the British Empire lasts we will raise our voice against these false gods.

Let me in this, the last speech I shall make before a great audience as Prime Minister of this country, proclaim my faith, which is the faith of millions of all races from end to end of the British Empire:

Here we have ceased to be an island, but we are still an empire. And what is her secret? Freedom, ordered freedom within the law, with force in the background and not in the foreground; a society in which authority and freedom are blended in due proportions, in which State and citizen are both ends and means. An Empire, organized for peace and for the free development of the individual in and through an infinite variety of voluntary associations that neither defy the State nor its rulers.

The old doctrine of the Divine Right of Kings has gone, but we have no intention of erecting in its place a new doctrine of the Divine Right of States, for no state that ever was is worthy of a free man's worship.

The brotherhood of man today is often denied and derided and called foolishness, but it is in fact one of the foolish things in the world which God has chosen to confound the wise and the world is confounded by daily. We may evade it; we may deny it, but we shall find no rest for ourselves nor the world until we acknowledge it as the ultimate wisdom.—STANLEY BALDWIN before members of the YOUTH OF THE EMPIRE MOVEMENT, London.

Action Speaks Louder

IT is not enough for the bankers of the country to say that the granting of credit must be restored to private instrumentalities and that phase of the Government's business relinquished. It is their obligation to do the job and to begin now.

The Home Owners' Loan Corporation can no longer take on new loans. The Reconstruction Finance Corporation, with its subsidiaries, is approaching the time when it must stop taking on new business. Are we going to stand by and let the life of the R.F.C. be extended year after year, with

no effective protest? Let us not only aid them in orderly liquidation, but lend every reasonable assistance to the end that there will be no need for the enactment of any legislation that will grant them the right to solicit additional loans.

Federal Land banks, Federal Intermediate Credit banks, and Production Credit associations being set up as permanent organizations will continue to extend their facilities just in proportion to the quantity and quality of sound credit service rendered to worthy farmers by the commercial banks of this country. As aggressive banks and intelligent bankers let us assist the agencies of the Farm Credit Administration to limit themselves to their main job which Governor Myers says is to supplement rather than supplant existing private sources of credit.

Bankers should have a very definite interest in the question of which of these agencies—H.O.L.C., R.F.C., Federal Land banks, Intermediate Credit banks, Production Credit associations—and which activities of such agencies, shall become permanent. Accordingly, they might well give increasing attention to the particular credit fields served by these agencies, with a view to seeing that their activities are properly circumscribed—the goal, of course, being the protection of those credit fields which should be reserved to the banking institutions.

The present situation is a challenge to the best thought of the bankers of America, one that calls for intelligent and aggressive action on their part for an inculcation in the public mind of a conviction that independent chartered banking does occupy an essential place in the credit structure and that its place cannot be so well served by any agencies other than our private banking system.—A. G. BROWN, President, Ohio Citizens Trust Company, Toledo, before the TENNESSEE BANKERS ASSOCIATION.

Grub Stakes for Enterprise

SUPPOSE that every stimulator of business were to throw down his sample case, every executive give up his command, every promotion man lose his faith. Suppose those dogged pluggers for insurance decided not to take us at our word, not to "come in again". Suppose all the brisk evangels of all the good things of life called it a day and quit the country cold—there you would have deflation with a vengeance. The famed American standard of living would collapse, like the purely artificial thing it is. That hoary old fraud "demand" would fade out with all the celerity and completeness of a movie eclipse of the sun.

We need to convince the demagogic firebrand and the legislative cure-all, the thoughtless and the skeptic, that $26,000,000,000 worth of goods were not sold at retail last year by mere order-taking. The simple fact is that the United States is kept a going concern through the indestructible spirit of its ambassadors of the more abundant life. Writers may write, speakers may speak, illustrators may illustrate, and politicians may promise, but when the more abundant life is brought, you will find that it will be brought by these business ambassadors, the pioneers of new things.

The greatest cause of concern today, in my judgment, is that, in minimizing the courage and enthusiasm necessary to create and develop new wealth-producing enterprises, we are turning over this necessary job to political agencies. This is disturbing for two reasons. In the first place the job of stimulating business activity and raising standards of living can best be done by those who have been endowed with peculiar qualities. The simulation to increased business activity comes from a little group of men who have been given, no one knows why, distinct ability in this field. We recognize a peculiar ability in other fields.

We recognize that a Will Rogers is an entertainer par excellence. We give him a million dollars a year and are rather proud that Will Rogers can have a million dollars a year. The Mayo brothers in Rochester—we recognize their peculiar ability in the surgical field. We recognize a Sargent who can paint a portrait better than anyone else can. We do not recognize the Walter Chrysler from the little machine shop out in Ellis, Kansas, who likewise was given an ability, not to paint, not to play the violin as Fritz Kreisler plays it, but that ability to anticipate our wants, our desires, that ability to get around him friends who will believe in him and arrange for the financing of a new model, for the warehousing and insuring and selling and distributing of that thing only today born in his mind.

Here is the strange paradox that we meet today. Formerly the pictures of those enterprisers appeared in the success magazines. We held them up to our children as models and we said, "Get out and do something in the world, as these men have done." But in recent years we have come to feel that that form of peculiar ability is something to be ashamed of. There is a tendency today to substitute political agencies for those who in the past have motivated and stimulated trade.

Secondly, never, since the world began, has a political agency anywhere ever created or developed a single wealth-producing enterprise that makes for the continuous employment of men. That sounds like a pretty strong statement, but I assure you it is a fact. Walk down the street with me. Those telephone wires, those telegraph poles, that truck delivering coal, that radio aerial overhead, that airplane, that automobile, that power plant, that street railway system, that railroad system, anything in the industrial field, you will find that it came from "We, the People—", from the voluntary cooperation, spurred on by enterprisers, that has made these wealth-producing enterprises.

The bank came from the development of the jeweler who safeguarded his customers' cash. The insurance company came about by the pooling of risks by traders themselves. The waterworks under this city (New York) were conceived by individuals who gathered together the money and put the waterworks there until municipalities took them over. And if you point to the post office, let me remind you that in Great Britain and America the collection and distribution of mail was first pioneered by individuals working with free capital provided by individuals, and not allocated by political agencies.

The reason why a political agency has never been able to

do these things has already been indicated. It could not stand up against the popular resentment of taking tax money to promote and develop "crazy ideas". A political agency could not pick out of the hundred thousand new things those half dozen or so which turn out to be great enterprises, because, after all, many are called but few are chosen. With this record in mind the public *en masse* can do a better job of choosing than any political agency.

We are perplexed today, for one thing, because with an evident prosperity there are still millions on public relief. Perhaps it is because we have deflected the "free capital" from the use of individuals with "fool" ideas to political agencies. Perhaps we are denying our enterprising track layers and trail blazers their grub stake.—MERLE THORPE, Editor, *Nation's Business*, before THE ASSOCIATED TRAFFIC CLUBS OF AMERICA.

Never Mind the Joneses

SAFETY of investment rather than large dividend returns should attract investors to the ownership of bank stock. If one is concerned primarily with making "big money", other lines of business endeavor will normally offer larger returns. The hope of making large returns introduces, of necessity, the element of chance. It promotes a desire for big volume with its often attendant cases of indigestion. Bank management's objective should not be centered on having the biggest institution in town, but rather on having the best bank that honest purpose and intelligent effort can produce. To "outstrip the Jones" has no place in banking philosophy.

Furthermore, those who would enter the employ of bank stockholders should regard the service as a professional career—a profession in which thrift is a crowning virtue but greed a gnawing vice. It follows therefore that banks should be officered by professionally trained men, specialists if you please, with a professional attitude of service as distinguished from the attitude of the executive in other lines of business who properly seeks to obtain the largest possible dollar return for the application of his talents and abilities. Bank officers should be adequately compensated so that they do not need to dissipate their energies and capacities in efforts "to make money on the side." The past seven years have demonstrated that the idea of banking as a business opportunity is passe for the bankers and fresh emphasis has been given to banking as a professional career.

While this thought is intended for bank officers, it is equally applicable to the staff, which should be composed largely of men purposing to be professional bankers and to be in constant training in the philosophy and technique of banking, to the end that they may take their places in due time in the official family of the institution.

That banking is a profession is an ideal, but one that would eliminate the problem of the "successful business man" who would round out his commercial career as an executive bank officer, a position for which he has not been specifically trained, and which all too often ends in trouble for the bank and its depositors.

The directors should be men who are non-borrowers—certainly non-borrowers from the institution which they have sworn to direct. Loans should not be made to officers and directors of the lending institution, or to other bank officers, if there is an implied "reciprocal trade agreement." Officers and directors occupy fundamentally a trust relationship and they presumably cannot be said to exercise impartial judgment when they deal with or lend to themselves. Borrowing officers and directors lost the courage of leadership when the crisis came and they themselves were unable to repay their own borrowings.

The morale and leadership of many institutions that have had trouble in the recent past have been broken down because of the violation of this principle. This is a most vulnerable point for the collapse of banking ideals.

That stockholders should be more interested in the safety of their investments than in large dividend returns is ideal, but an ideal which should make adequate capitalization an easier task. This would also facilitate directors' decisions not to declare dividends from earnings when earnings are needed for capital requirements.—BEN JOHNSON, Special Assistant to the R.F.C. Board of Directors, before the MARYLAND BANKERS ASSOCIATION.

This Our First Managed Recovery

IT seems clear that the recovery has now proceeded to the point where it has become desirable for industry to give serious consideration to the enlargement of productive facilities, to increasing its absorption of unemployed workers, to the training of skilled labor, and thus to the contribution to a more abundant life.

Expansion programs in this managed recovery have had a relatively poor start. The depression was especially marked by the reduction in the output of durable and capital goods, by the deferring of maintenance programs, by the virtual disappearance of new corporate capital flotations, and by extreme depression in construction of a capital goods nature. Some start has, however, already been made, and it is good to be able to observe it.

The need for expansion, which in many instances involves the securing of new capital through the issuance of new bonds or stocks, makes the security markets of increasing importance to the recovery.

From the point of view of the flow of capital into productive enterprises, the maintenance of a broad and liquid mar-

ket for securities is, of course, essential. The issuance of new bonds and stocks in great volume by large scale enterprises is now essential, and may not with safety be long deferred if we are to avoid substantial price inflation. Such amounts of capital are mostly beyond the financial resources of small groups; and dependence must be placed upon the free funds of the nation's saving classes if that essential capital is to be publicly raised. When our people subscribe to these new money securities business will gain many new partners.

The point which frequently is not adequately emphasized is the importance of a continuously liquid security market as a prerequisite to the initial purchase of securities by the investors. Funds available for investment are in large measure the surplus that people have left out of their incomes after paying their regular bills. Such funds are accumulated against future emergency or contingency, and must, from their owners' viewpoint, be continuously available. If there is no readily available way of converting securities back into cash, not only when they are first purchased but always thereafter, the initial purchase tends to be precluded.

More than a liquid security market is necessary, however, if our managed recovery is to develop into a well-balanced period of prosperity, rather than a period of undesirable price fluctuations. Probably the most helpful development would be a contraction in Government deficits. These deficits have been an important element in stimulating consumer dollar incomes. But incomes have now expanded—they have been expanding at the rate of about 10 per cent per year—to the point where their impact in commodity markets is serving to raise prices rather than to evoke further production. The clear need now is to find ways and means of enlarging production facilities, rather than in providing further deficit-created unearned consumer incomes. Our problem is to see that "pump priming" does not raise the pressure to the point where there will be a bursting out into undesirable price changes.

It should also be noted that as capital is disbursed in industries, in expansion programs or in the modernization of plant and equipment, the employment and income of workers in the capital goods industries will expand, thus making continued governmental deficits additionally dangerous.

A definite transition has taken place in the fundamental nature of this, our first managed recovery. Until recently it has been primarily a consumers' goods recovery financed chiefly out of the expansion of the public debt, and drawing upon existing productive facilities. If now it is to proceed further to a constructive way it will have to become increasingly a capital goods recovery based on the creation of new national wealth, that is, useful productive equipment. Already some progress has been made towards effectuating the transition. But the drastic and prolonged retrenchment of the long period of hard times behind us has built up urgent requirements for large scale replenishment and reconstruction in the period that lies immediately ahead.—CHARLES R. GAY, President, the New York Stock Exchange, before the ILLINOIS MANUFACTURERS COSTS ASSOCIATION.

Education's Job

I AM convinced that the high school and the college do not best fit a man for earning a living by placing all their emphasis on the specific job for which the student wishes to be trained. I believe that it is not the function of the high school or college to teach the student the routine and the practical methods of the field in which he expects to engage. To borrow a word from my old friend, Benjamin M. Anderson, Jr., who gave an excellent address on this subject some years ago and who brought out forcefully a number of the points on which I wish to dwell, the practical curriculum is self-defeating. This kind of curriculum is not the best method of training good business men.

I say this for a number of reasons. First is the fact that the high school and university are usually not able to do a good job of teaching the practical operating methods employed in any given line of business. The men and women on the faculty ordinarily have very little first hand contact with business, and they are unlikely to be familiar with detailed business organization and routine.

In the second place, if the student is to study to any purpose the practical methods employed in some line of business, it becomes necessary for him to know during his days in school exactly what kind of work he is going to engage in after he leaves. Ordinarily, the student does not have this knowledge. He should not be expected to choose his vocation at such an early and inexperienced age. Strange things happen. The student of accounting may find himself in publicity work. A man who has been trained by his university for a very special sort of work may find his knowledge valueless because the field he has chosen is overcrowded. I realize, of course, that no sort of knowledge is entirely without value, and that if a student who has specialized in banking practice finds himself employed at a newspaper copy desk, his banking training will nevertheless probably be of some limited use, but in such a case it is obvious that a broad education in political economy and history and literature would be more valuable than highly specialized training in the mechanics of bank operation.

In the third place, even if the student who has specialized in banking practice in school follows a banking career later, he will find that a knowledge of history and political economy and literature and the other basic subjects is extremely important in banking. I am firmly convinced that even if the high school and college do a good job of teaching the practice and routine of some particular line of business, which is usually not the case, and if the student who takes these courses actually works in the field for which he was trained, which is frequently not the case, nevertheless the graduate with this kind of training is in the long run less well equipped to earn his living than the student who has been well grounded in fundamentals.

Emphasis on the practical aspects of a vocation precludes extensive training in fundamentals. The student with the practical training is by and large a narrow specialist. However well versed he may be in his own field, his education will have given him no conception of how his work fits into the

entire pattern of his business or of the economic organization as a whole. His practical training will make him less eligible than the student with a firm grasp of fundamentals for advancement to a position requiring the ability to view in perspective several branches of endeavor. His training will not fit him to take a broad view of the complex problems confronting business men today. His shortsightedness may result in his making decisions of immediate benefit to his own organization but detrimental to society in general, and the point here is that in the long run such decisions will prove detrimental to his own organization as well. No one concern can prosper permanently at the expense of society as a whole.

Our experience during the recent depression gives excellent point to these remarks. During the boom of the '20s, colleges turned out students by the thousands with but little fundamental learning, equipped largely with what might be termed the tricks of the trade. Too many of the graduates were excellent purchasing agents, excellent traffic managers, excellent comptrollers, or excellent publicity men, but fatally ignorant outside their special fields. When the depression hit us, many of these men were cut loose tragically, and they found extreme difficulty in adjusting themselves to other lines.

The job of the high schools and the universities is to produce men and women trained to think, write and speak clearly, with a sound background of such fundamentals as economics and history and mathematics and science, so that they will understand basic principles. With a firm grasp of principles, they will know where to find any specific information they may require.

It is true that when such a university graduate obtains a job he will need special knowledge bearing on the particular line of business in which he finds himself. I feel that the business community itself can and should furnish such information. I believe further that the business community can impart this information in a very brief time, and with far greater effectiveness than the high school or university.

In the field of banking, the American Institute of Banking is the solution to this phase of the educational problem.—TOM K. SMITH, President, American Bankers Association, before the AMERICAN INSTITUTE OF BANKING.

A National Transportation Policy

THE institutional investor does not wish to run the railways. During many years he has sought to cooperate with the management and with railway labor in supporting sound policy and securing recognition in Congress and before the Interstate Commerce Commission of the demonstrable needs of the carriers.

He has been opposed to the unregulated competition of highway carriers. He has pointed out the folly of the unrestrained and subsidized competition of inland water ways. He has sponsored and paid for a comprehensive study of the railways' affairs by a distinguished commission under the chairmanship of a practical minded ex-president of the United States. He has maintained an effective agency of research and public education in the form of the Railroad Security Owners' Association. He is represented on committees now engaged in attempting a just and sound reorganization of railways in bankruptcy. He is appreciative of the skill, energy, and resourcefulness of the executives and staffs of the railways that are managing many of the systems with notable success.

But busy as he has been forced to be in railway matters, he neither desires nor feels competent to run the railways. Nor does the institutional railway investor have any ready formula for solving the remaining difficulties of the railways, nor any final judgment on a proper future policy to be agreed on and lived up to. But he has great faith in the capacity of American business men and competently led workers, such as are represented in the railway unions, to find solutions provided the public will give its support and confidence. No single element, neither investor, executive, labor, shipper nor government, by insisting on its own views, will accomplish what needs to be accomplished.

We need to attain unity of action. A way of arriving at reasonable unity has been shown in the substitution of conference for coercion, either by appeal to courts or to Congress, in the recent agreement arrived at with respect to railway pensions. That achievement is important not only in itself but as an illustration of method. It can not go into effect without Government sanction as most of the decisions affecting railway matters similarly require governmental approval of one sort or another. That is a state of affairs, desirable or undesirable, which exists, and at long last I suggest that we give up protesting against it as a permanent condition.

There may yet be some advantage in the fact, knowing what we now know about the Constitution in its relation to business, that the railroads were the pioneer ward of a not-always-wise Government.

Let us for a while be less concerned with how we have arrived where we are and more concerned as to how we may get the results we wish to attain, namely, a railway industry that will enjoy these five qualities:

1. A favorable public opinion.
2. Harmonious and cooperative employee relations.
3. Fair treatment from its customers permitting of adequate earnings.
4. Efficiency and progressiveness in management.
5. An adequate supply of capital funds to keep abreast of the needs of the nation.

As a sixth quality, not wholly an afterthought, I might add the blessings of a governmental policy settled at least for a reasonable period of years.

To arrive at what I conceive to be this blessed state, I propose, as a first step, that a representative body of 10 men be created by joint action of interested parties to frame a transportation policy for America. This body should be chosen by its constituencies and not selected by any individual, except, perhaps, those who would represent the Government. It should consist of equal representation of executives, investors, shippers, labor and government. It should be compensated for its services. It should be adequately staffed. It should be assured of cooperation from all sources.

It should be given ample time to arrive at its recommendations. It should be commissioned to secure the adoption of its recommendations.

I would gladly leave to the carriers themselves all the problems of their business. I do not wish to add to the burdens of the investor. We prefer golf to interference with other people's business. But, in truth, this is our business. We find that it is the institutional investor who must take leadership in reorganization.

An objective, patient, long-time view must be had by all of us. This is of greatest importance in respect of the industry for which the defeatist is always ready to prescribe Government ownership. Proof must be given that the private citizen in America can function more adequately in the management of business than Government appointees. The opportunity is here.—HENRY BRUÈRE, President, Bowery Savings Bank, New York, before THE ASSOCIATED TRAFFIC CLUBS OF AMERICA.

Inflation Antitoxin

IT seems to me that instead of saying that wild inflation might not come but probably will come, the sound view to take is that that kind of inflation might come but probably will not come. In dealing with this question we must recognize that there are certain unsolved problems in the hands of the managers of currency.

At the present time there are three or four very distinct problems that confront the money managers here and all over the world. I don't know what solution they will give to these questions; hence there is a large element of uncertainty in drawing hard and fast conclusions about the outlook for the price level. But I would like just to suggest what these uncertainties are without trying to elaborate upon them or predict anything as to the inevitable solution.

The first uncertainty has to do with the responsibility of managing the price level without having defined what the price level is, and that is the predicament we are in in this country today. Our currency managers have flatly announced that they accept responsibility of managing the price level but they have never told us what price level. I think before the end of this year we may have an answer to that but as yet we have not been let into the secret of what the price level is to be.

The second problem of the currency managers has to do with easy money. They are faced with the task of curbing a boom if, as and when a boom occurs, and yet at the same time sticking to easy money. Now in the whole history of the Anglo-Saxon type of banking system there never has been anyone before who has assumed you could curb a boom without having tight money. The thing to do to curb a boom was to raise the discount. The currency managers today have scrapped that tool of control. "Easy Money Forever" is the motto of the currency managers both in London and in Washington and it remains to be seen when we come to a test how you can curb a boom and still maintain easy money throughout the boom.

The third problem has to do with gold. It is a mechanical, technical problem—how to maintain the price of $35 now and yet not have all the gold in the world dumped in your lap. I think the psychology of the gold prices has already been taken care of. The financial centers of the world have decided that the price of gold is going to drop but the time is uncertain. The currency managers have to worry about the details from this point on, the technicalities of it, but the financial centers of the world, I believe, have accepted the fate of a change in the price of gold.

Finally, the currency managers are up against the problem of how to stop spending at the top of the cycle so that when they next come to a down cycle they will have some fat left upon which to draw. Pump priming has been the rule of the past. Now we hear talk about economy, about cutting down on government expenditures, but we all recognize that economy is unpopular with the great mass of people and so currency managers, however good their intentions and however desirous they may be of cutting down on spending at the top of the cycle, are up against a political force and it remains to be seen whether that political force can be kept under control or not.

Let me try to draw these threads together in the way of a conclusion about the adequacy of inflation control. My contention would be that inflation controls are adequate to prevent a runaway inflation of commodity prices and that such a runaway inflation is a distinct improbability; that it is one of those things that has to be classed as a danger is true, but a fairly remote danger and an improbable danger. We are going through a period in the history of our economic affairs in which many experiments are being tried. There are many things that look very different to us. We are impressed every day by the novelties around us, but there is an old French saying which translated runs substantially as follows: The more things seem to change the more they really stay just the way they were before. And I think if you examine the way in which the recovery cycle has operated up to the present time, you are bound to be impressed by the extent to which things remained just as they were.

The business cycle function is the same today as it was in the Nineties; the laws of supply and demand function the same today as they did then; and there are a great many of these old fundamental forces which have not undergone change, even though there are certain superficial things which do appear to have been totally changed.

In the field of commodity prices we are dealing with trends that are not merely economic but social; and a rising price trend builds up certain antidotes against an excessive runaway inflation. It is like certain types of disease which give the patient, after a little bit, a certain kind of immunity to that disease, and the experience we have had thus far with rising prices through the period of recovery seems to me to be heading toward a point where we get a revolt against the high cost of living and that revolt against the high cost of living will constitute a source of political pressure on Washington to make the controls of inflation adequate. I think the chances are reasonably good that they will do so.—LIONEL D. EDIE, President, Lionel D. Edie Company, New York, before the CHAMBER OF COMMERCE OF THE UNITED STATES.

Hardy Capitalism

ON many of the financial, political and social innovations and experiments of the day, opinion differs radically. Some of them have been bad mistakes. A spirit of hostility to wealth which has been displayed in many of them was most unfortunate. But that the experiments would be tried was made absolutely inevitable, first by the economic, financial, commercial and social derangement of the great War, then by the shattering of the economic system, as a consequence of the War, in the great collapse of 1929 and the great depression which followed.

It is a common saying that the old way of doing business, the old Wall Street, is gone forever. Perhaps it is, and perhaps it is best that it should have gone. The problem now is to adjust the Wall Street mechanism to the new conditions.

The Wall Street methods and practices of 10, 20 or 30 years ago, even those of 1929, could not in any case have returned. It was the elder Morgan who remarked as long ago as 1910 that the time was soon coming when business would have to be done with glass pockets. The Stock Exchange itself has long been at work to prevent the return of the public-be-damned days of Wall Street tradition. The query put in the days of the high-handed and ill-fated New York Street Railway deal, "Who will guarantee the guarantor?", is in a way of being answered.

But back of all this is the fact, which Wall Street now fully recognizes, that the break-down of capitalism, of which so much was said three or four years ago, is not destined to happen. Capitalism is a hardy plant; even its enemies have now learned that while the abuse of it may have aggravated an economic depression which was due to other causes, the sound working of the capital system has brought recovery from depression and resumption of the forward movement in impressive form, and after the familar interval of four or five years of readjustment.—ALEXANDER DANA NOYES, Financial Editor, *The New York Times*, before the NEW YORK FINANCIAL ADVERTISERS ASSOCIATION.

Inflation Control

THOSE who ask "Is inflation inevitable?" generally imagine that we have not already had it. As a matter of fact, we have had it ever since March 4, 1933! The level of wholesale prices has risen from a low in March 1933 of 55 per cent of the 1926 level, as reckoned by my weekly index number, up to a level at present (early June) of 93. That is a tremendous inflation, a rise of 70 per cent. This inflation of our price level has been caused by an inflation of our chief circulating medium, deposits subject to check, which have risen from 14 billions in March 1933 to about 23 billions.

Up to the present, inflation has been a benefit—merely the "reflation" necessary to counteract the previous deflation. It has pulled us out of the depression. But not much, if any, further inflation would be beneficial, and any great inflation would certainly be a great curse.

Moreover, such further inflation is entirely preventable. Those who can prevent it, if they will—and I think they will—are Chairman Eccles, and his colleagues on the Federal Reserve Board, Secretary Morgenthau, President Roosevelt, and Congress. There are at least three important controls which, properly used, can go far to prevent undesired inflation: (1) open market operations whereby the Federal Reserve System would sell securities and withdraw the proceeds from circulation; (2) raising discount rates of banks on the initiative of the Federal Reserve Board; (3) lowering the price of gold.

These controls may not be sufficient, especially if the Administration does not balance its budget and resorts to printing press money or further bank credit created by means of loans to banks.

But the very strongest of all safeguards against inflation would be to revive the 100 per cent reserve system of the old Bank of Amsterdam which, as long as it was retained, worked perfectly. This 100 per cent principle was partially revived in 1844 in the English Bank Act and is still partially employed by the Bank of England. It is now seriously considered in Congress. It could rid us of our two weakest spots, namely: (1) small reserve requirements and consequent "excess reserves"—a menace of inflation by the banks; and (2) the power of the Government to subordinate monetary policy to fiscal policy—a menace of inflation by the Government.—IRVING FISHER, Professor Emeritus of Economics, Yale University, before the SOCIETY FOR STABILITY IN MONEY AND BANKING.

The Stream That Turns the Mill

MONEY rouses less emotional interest and less of it is actually seen in a big industry than almost anywhere else on earth. It sometimes appears so low in the scale of usefulness that even were it physically present in heaps of silver and bills it would hardly rank in importance with a pile of coal or a dock full of ore. Industry can be conceived as going along without money but not without ore and coal. The only intelligent thrill one can extract from money is in considering its ceaseless flow and the good it effects in its course. It is like the stream that turns the mill wheel and passes on, and, as in nature the water returns again in rain, so in the economy of work the money returns to all who previously earned and spent it. The only possible answer to the question, "Where does the money go?" is that "It just keeps on going."

The mention of large sums of money often causes people to wonder what they would do if they had it. The answer is that if it came to them by honest industry there would be little choice what to do with it. They would first have had to pay it out before they could receive it at all, and then, if everything worked well, it would return to them; but, in order to keep everything working well, they would immediately have to pay it out again.—W. J. CAMERON, Ford Motor Company, in a nation-wide broadcast.

Beauty and the Beast

WITHIN a span of the next six to nine months it seems quite logical that the Federal Reserve System and various governmental agencies have it within their power to control, within reasonable limits, the level of money rates. Their pride and their beliefs would seem to argue against a substantial tightening from present levels. Relative stability in the bond market in terms of yield does not denote pleasing stability in price because a variation of a quarter of 1 per cent in a 30-year bond means approximately a five point variation in price and a variation of .15 of 1 per cent in a 30-year bond means a variation of three points in price. Multiply price variation in points by the number of bonds owned, set the aggregate variation against your capital funds, and interesting results will be revealed.

As we progress beyond the six months period, the ever-looming struggle between "Beauty and the Beast"—in this case financial virtue and budgetary deficits—will become a larger and larger market factor. This leads to another point. It would seem most probable that the psychology of the bond buyer has been changed by recent developments. Prior to the break in the Government bond market, the buyer, even though admitting the necessity for caution in the back of his mind, was an expansionist in the sides of his mind, for I am told that it is there that the motor centers of the brain are located. If, as some think, we have begun what will in retrospect turn out to be a long, slow downward swing in bond prices, then it seems to me most important for a banker to realize that in buying long-term bonds he is buying against the trend. In other words, even though there are recoveries after dips, yet if the secular trend is against him it seems to me he must be twice as astute as formerly when the secular trend was with him. Is not this in itself another argument for spaced maturities as a hedge against human fallibility?

As to conditions beyond nine months from now, I have not yet seen any reasons advanced which would cause me to think that the laws of supply and demand and the lessons of history have been done away with. Accordingly, barring developments in the interim not now foreseen, it seems to me that one should expect a *gradual* rise in interest rates. I admit that drags can be placed on the free movement of economic forces but these forces are very strong and in the long run very immutable.—J. HARVIE WILKINSON, JR., Vice-president, State-Planters Bank and Trust Company, Richmond, Virginia, before the ILLINOIS BANKERS ASSOCIATION.

Publicity Isn't Enough

AN understanding of public desires and reactions is an essential factor for bank administration under conditions that exist today, just as is a mastery of loan and investment principles.

One of the banker's major problems is to establish and maintain a clearer understanding and greater sympathy of viewpoint by the public toward banks and bankers. Therefore, much of the work of the American Bankers Association is directed to that end.

Some men seem to believe the solution lies along the line of publicity, advertising and propaganda. Doubtless, through these agencies much is accomplished toward promoting and fostering a better public attitude. However, these are not the only means which should be used, nor can the solution be arrived at through them alone. In banking policies and methods of operations themselves there also exists a most powerful medium for promoting public relations. The problem of public relations for a bank is one of well-rounded bank administration—not merely one of the public relations department.

Banking operations and policies of the past, even in the best of banks, were often so directed toward matters of technical soundness, that they frequently failed to sense popular viewpoints and sentiments. No doubt a bank's operations should be based on considerations of sound banking, rather than popularity, but wherever possible the operations should also be coordinated with a sound public relations policy for the burden of improving public relations for banking should not rest wholly on publicity, advertising and propaganda. Sound banking done in an unpopular way, may prove, under stress, not to have been so sound after all.

We do not believe that a standardized, centralized, nationwide public relations program by press, radio or otherwise can be successfully conducted from New York or any other place. Ours is not a program that pretends to revolutionize overnight the attitude of the public toward banking. We do not believe that can be done. But it is a program, sound and productive of results still flexible enough for adaptation by local banks and local groups to the conditions peculiar to their own environment.—F. N. SHEPHERD, Executive Manager, American Bankers Association, before the COLORADO BANKERS ASSOCIATION.

Modern Home Financing

IT hardly seems necessary any more to extol the virtues of the single mortgage, paid off on a direct monthly reduction basis. But as more prosperous days loom ahead with borrowers and buyers again seeking accommodation, I am a little apprehensive that second and third mortgages may attempt to re-enter the market. I believe we all agree they are unfair to the buyer-borrower and create an unhealthy condition in the entire economic structure.

The insured mortgage from the borrower's viewpoint is in every respect a safer method of financing a home, even though it may be harder to meet the initial requirement of a 20 per cent cash equity, than to pay down only 5 or 10 per cent, finance the rest through second or third liens—and pay them off on a catch-as-catch-can basis at a higher rate of interest.—STEWART McDONALD, Federal Housing Administrator, before the ILLINOIS BANKERS ASSOCIATION.

Report Form Standardization

NOW and then suggestions are received regarding the standardization of the bank report forms in use by the Comptroller's office, the Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System, and in one or two instances resolutions have been passed by bankers' associations requesting such standardization. This subject has been given extensive consideration and deliberation by the Comptroller's office, and by the other offices concerned.

Section 5211 of the U.S.R.S. provides in part: "Every association (national bank) shall make to the Comptroller of the Currency not less than three reports during each year according to the form which may be prescribed by him", etc. Also, "That the Comptroller of the Currency shall have power to call for special reports from any particular association whenever in his judgment the same are necessary to obtain a full and complete knowledge of its condition."

The forms prepared by the Comptroller's office pursuant to that statute have been the result of nearly 75 years of experience with banking institutions. No suggestion has come from the national banks or the state member banks of dissatisfaction with these forms.

The banks in the Federal Reserve System which use the Comptroller's forms represent 85.33 per cent of the total deposit liability in all insured banks. The total deposit liabilities of these banks amount to $42,885,326,000. The state banks and mutual savings banks which are not members of the Federal Reserve System, but which are insured by the Federal Deposit Insurance Corporation, have $7,370,393,000, or 14.67 per cent of the total deposits in all insured banks.

It would seem that less confusion would result if the banks having less than 15 per cent of the total deposits would adopt the present forms of the Comptroller, as far as practicable. Absolute standardization is not feasible as certain items must be reported by national banks which are not reported by state banks. For instance, national banks are required to report reserves with the Federal Reserve bank, investments in stock in the Federal Reserve bank, and preferred stock. None of these items is reported by state nonmember banks. Some state banks have notes and others have debentures as part of their capital structure. It is clear, therefore, that it is impossible to adopt a standard form because of these and other variations.

Up to the present time, the Comptroller's office has not received any specific request from a state supervising authority to include additional items in our forms or to omit items at present in our forms.

Inquiries have come to us from time to time regarding the classification of assets in national banks by national bank examiners as slow, doubtful, or loss. It may not, therefore, be out of place to reiterate the position of the office with reference to loans classified as slow as expressed before the Nebraska Bankers Association in November 1934: "the examiners when classifying loans as slow should state briefly the reasons for such classifications, but should bear in mind that the responsibility for determining and taking such action as may be necessary to place such slow loans in proper bankable shape rests entirely with the bankers. The examiners, therefore, should refrain from instructing the bankers as to what course they should pursue with their customers whose paper is classified as slow."—J. F. T. O'CONNOR, Comptroller of the Currency, before the IDAHO BANKERS ASSOCIATION.

Moral Recovery

IF we are to have real economy—real reform in Government administration—a thorough study should be made by a non-partisan congressional body wholly free of domination of the Government. Obviously, until some such comprehensive, intelligible picture of our Government machinery is presented and interpreted, all talk of tax reduction or tax increase is both premature and futile.

Comparing appropriations made on such a basis with the volume of ascertainable revenues under our existing system, it will then be merely a matter of simple arithmetic to determine whether we have a surplus or a deficit. If a surplus, then we may proceed to reduce the public debt. If a deficit, Congress will be justified in seeking new tax fields to conquer, the first of which might properly and profitably be the stronghold occupied by that vast army of men and women who now enjoy immunity, for no other reason than that they have succeeded in getting on the public payroll.

Whenever these interwoven projects and plans that are now taking form in the public mind, all calculated to provide better government at less cost, ultimately become operative, and when the old balance between authority and responsibility is restored, then it will not be "the exclusive few" who will garner the blessings under this swift moving program of sanity, economy, efficiency and restraint. On the contrary, these blessings will flow into every home and cheer every heart throughout the entire land.

When the Government borrows less, it isn't the banker who is benefited. He is merely the intermediary between the 45,000,000 depositors and the Federal Government. From a monetary standpoint, he personally may have little at stake, but from the standpoint of moral responsibility, he occupies an important, an honorable, a responsible position. He is the unofficial custodian of the people's holdings and savings. With Government borrowing reduced, less of the depositor's money is demanded. More of it can be put back into private, constructive, profit-making enterprise, with increased returns to the depositor for the use of his money.

It will automatically put an end to the shrunken and shrinking rates of interest to our depositors as the result of Government borrowing, for the use of their money placed in our keeping. That's what this whole program means to America's depositors who have suffered such staggering losses. That is why they are keenly anticipating this turn in affairs.

It means to every one who has life insurance that when his policy matures it will not have been reduced in value, in purchasing power. It will mean that his anticipated old age security and comfort will be realized.

It will mean to our endowed institutions that their financial integrity is assured; that they will not be obliged to curtail their activities or close their doors because of revenue losses brought about by depreciation in the value of their holdings and securities.

It will mean to the army of professional people—the teachers, the lawyers, the doctors, to all classes who look forward to the day when their promised pensions will be made available—that they will be able to meet their daily needs and obligations with the help of this supplementary assistance assuring them a happy, independent old age.

It will mean to the farmer that his substance will not be eaten up through increases in costs of the many forms of government under which he lives. It will mean that for his own use, for his added comfort, and for the education of his children, he may enjoy the margin of profit to which he is entitled, as a result of his own productive toil and saving upon his own acres. When assistance comes to him, it will not be by subsidy, not through the application of some high sounding philosophy, but rather through a practical, well-planned cooperative movement within his own ranks, directed by men of experience and training in the practical problems of agriculture. It will come through a program that will keep alive that fine spirit of self-respect and independence which has traditionally characterized the American farmer and which has shielded him from the curse of peasantry and serfdom. It will save him from the humiliation of being capitalized, as a complaining public charge or a convenient political pawn.

To all Americans, it means the stimulation of civic consciousness and community pride; a heightening of our spiritual aspirations; renewed faith and hope in the hearts of the people; the restoration of personal pride and confidence. *It will mean the permanency of our democracy.*

When the budget is finally brought into balance, a tax conscious public will have been created through the broadening of the tax base.

In speaking of recovery, we are disposed to think of it in terms of dollars and cents, of increased earnings, greater volume of output, more men on the payroll, increased car loadings, more of everything being manufactured and sold, more of the material things of life.

There is another phase of recovery in which we should be deeply concerned—recovery of our mental poise, our straight thinking, our moral strength, and the awakening of our civic consciousness and a greater appreciation of our social responsibility.

We must, however, recognize that the difficulties in the way of budget balancing are not measured merely in dollars and cents, but in terms of mass psychology and political expediency. Every dollar extravagantly spent was a promise that another dollar would be spent. Every voter who cast his ballot in approval of such expenditures is a voter who may be lost by their cessation. Every Congressman knows this. The budget can be balanced today, but it will not be balanced until Congress understands that a majority of the people of this country demand it be balanced. When the great army of thrifty Americans understands the facts, that demand will be promptly forthcoming.

There is real cause for encouragement in the increasingly frequent expressions from Washington as to the necessity of balancing the Federal budget, and certainly it is our duty to assist to our utmost in bringing this about.

Probably even today no one would suggest that the Government could forever continue to spend in excess of its revenues. Therefore, everyone will admit that a balancing of the budget at some time is essential to the continued prosperity and welfare of the nation. If we were prepared to admit that the budget could never be balanced, then necessarily we would be obliged to concede national bankruptcy with all that portends.

If we say the budget can be balanced, then when, let me ask, will there ever be a better time than today in which to do so? Are we to wait until another depression hits us? Are we to wait until perhaps we are confronted with the expenses of a war? Certainly not!

It matters not in the least what our views have been in the past as to the spending program of the Administration. When an about-face is suggested, when savings are proposed, when a balanced budget is announced as an aim of the Government, we—every one of us—in our own interest, as well as in the interest of our depositors and of the country, must recognize the importance of doing everything to aid the Administration to save a great country from national bankruptcy.—ORVAL W. ADAMS, Executive Vice-president, Utah State National Bank, Salt Lake City, and First Vice-president, American Bankers Association, before the NEW JERSEY BANKERS ASSOCIATION.

20 Checks for $1

WHILE I believe that the greatest good can eventually come from large scale research, the organization and cost of which is beyond the means of the smaller banks, nevertheless there is research that can be done by the smaller organizations that can reflect immediate progress and profit.

A year and a half ago I set out to find a means of comparing the results of each of the five offices of my own bank in their respective five Virginia cities related to their respective opportunities for service to the people in each town. We finally decided that the white male adult population would be a fair and representative common denominator by which measure each office could determine its own relative effective operation in the community.

We then determined what per cent of the total white male adult population of the five cities was represented in each town. Richmond, for example, had 41.5 per cent of the total of the five cities. We then took Richmond's individual balance sheet and determined the percentage of its resources and liabilities to the total balance sheet of the whole bank. And then determined the percentage that office had of the number of accounts being served in the various brackets, such as checking, savings, loans, and lock boxes.

We found that in one branch the number of checking accounts was 75 per cent below what the number should be related to its population. Why was this—management, quarters, terms of service charges, or what? We operated all personal checking accounts in conformity with the local clearinghouse rules; and upon comparison found that the rules in the city of 25 per cent effectiveness were the most burdensome.

We went to the local clearinghouse with our story and suggested that the whole matter of service charges on personal checking accounts be looked into, based on our findings. We were told that these rules had been adopted in 1921 and had never been changed since, and that there was neither interest in nor occasion for any change now. We pointed out to no avail that perhaps the public would respond better to a more modernized version of service. Again we were advised that the local banks were quite satisfied, that the situation was just as they would like it.

To carry out our research to a practical point, we offered the modernized popular checking account service of 20 checks for $1, with no minimum balance required and no other service charge made.

In just four months' time the number of accounts opened and remaining on the books was 100 per cent greater—double the number—than the old style personal checking account that had been developed in four years and four months since we first offered checking account service in that city; although we continued to offer both services.

That the streamlined service of 1937 so remarkably outsold the T Model of 1921 is of course not surprising. We only arrived at the awakening ourselves, however, by a small program of research that opened our eyes to a need for some other service and the lack of that service in a given community.—THOMAS C. BOUSHALL, President, The Morris Plan Bank of Virginia, before GROUP IV, VIRGINIA BANKERS ASSOCIATION.

Trade Means Trade

THE present problem of international trade is one of international economy and concerns itself with the questions of international monetary stabilization, the international gold standard, the abolishment or modification of quotas, import restrictions, clearing regulations, and a number of other minor and collateral influences, affecting international trade.

The instability of exchanges is a serious deterrent to international trade, but its effects, at least over a long term, can be exaggerated unless in a particular case there is a decided overvaluation of the currency of the particular country. The important and counteracting result from a marked disparity in exchanges is that it normally leads to increasing tariffs and other measures which nullify this disparity although the unfortunate result is that international trade is further dislocated. A stimulation in exports may be secured by a nation through devaluation but the gain is temporary because it not only leads to reprisals by other nations but also ultimately leads to decreased imports and higher costs of living in the country seeking to be benefited by devaluation.

One of the most encouraging aspects of our international trade has been the upward trend of imports during recent times. This is not only a result of our industrial recovery and our increased purchasing power but it is also supplying a method by which the foreign consumers are able to get needed dollar exchange to buy our own exports. About 80 per cent of our imports represent either raw materials for use in the manufacturing industries or food products. It seems to be difficult for the average American to grasp the elementary fact that if we expect to sell in foreign markets, especially in view of our heavy creditor position, we must be willing to buy. Indeed, it is rather remarkable that our own export trade has been able to recover as much as it has in view of the fact that at the end of the war we had a net creditor position of about 14 billions of dollars which was further increased later, and in view further of the fact that we continued after the war to increase our tariffs.

But, however encouraging the recent statistics of foreign trade in our own country may be, the outlook is not completely reassuring. The European nations as well as many others are using a large part of their national income for war armaments and war preparations. Such expenditures are uneconomic for they do not permanently contribute to the well-being of their people. In our own case, we continue to increase our share of the world's gold and silver. We are the greatest creditor nation in the world, but both by legal prohibition and national sentiment we have no disposition to make permanent investments of our capital in foreign nations. The future progress of our foreign trade—of our exports in particular—depends largely on the question, "What are we willing to buy?"—W. F. GEPHART, Vice-president, First National Bank in St. Louis, before the NORTH AMERICAN FOREIGN BANKERS ASSOCIATION.

Steering Trusts Through Inflation

THE effect of such inflation as would result in a substantial decline in the purchasing power of the dollars paid to trust beneficiaries appears likely to be harmful to all trust beneficiaries. All trust beneficiaries, however, are not likely to suffer to the same extent. The trustees who by the terms of the trust have the fullest and widest and most specific authority to do so may be able to take partially effective measures that may be as effective as those which individuals may take. This does not mean that they can act with the same freedom from restriction as individuals. My

thought is rather that the greater freedom of individuals will as a practical matter be offset in the case of most individuals by inferior sources of information and by the inability of most individuals to devote their time to a day-to-day study of investment and economic conditions such as goes on in the investment organization of a trust institution.

The ability of trustees to take effective action in the event of inflation gradually decreases as their authority to exercise discretionary investment power decreases until we come to trusts in which investments are definitely limited to statutory lists. Here, apart from such offset as may result from ownership of real estate acquired at foreclosure, harm done in the event of inflation is likely to be considerably greater.

The situation of persons dependent on annuities, pensions, life insurance settlement options and similar sources of income that is definitely fixed in dollars is much the same as that of beneficiaries of these most restricted trusts. Possibly their situation may be a little worse in that if rents on foreclosed property increase, or if the trustee can supplement income from principal, the trust beneficiaries may get more dollars (even though their dollars may buy less), while those dependent upon contracts cannot expect to get more dollars than their contracts call for.

All, however, appear to be facing the likelihood of harm in the event of a substantial decline in the purchasing power of the dollar. All, therefore, appear to have a common interest in combatting dangerous inflationary tendencies.—James W. Allison, Vice-president, Equitable Trust Company, Wilmington, Delaware, before the Southern Forum, Society for Stability in Money and Banking.

Investment Quandary

In spite of the radical change in the character of bank assets, the law of New York still ignores the investment problem and devotes its pages to loans and discounts, while many bankers unable to find an alternative continue to expand an already swollen investment portfolio. I am not suggesting that this subject is one which can be adequately dealt with by legislation. In fact, our experience in providing a legal list for the guidance of savings banks illustrates the difficulties of attempting to prescribe sound investment policy through legislative enactment. By the exercise of its supervisory powers the State has endeavored, with a considerable degree of success, to improve the quality of investment portfolios. The problem, however, is essentially the responsibility of individual bank management. The State may prescribe or recommend general rules and standards, but it remains for the officers and directors to note the trends of the times and to weigh their influences upon the various classes of securities available for bank investment.

For years the State of New York recognized railroad securities as basically sound by approving them as investment for savings and trust funds. Two years of depression, however, taught us that even this class of securities was not immune to the downward trend of the business cycle. In December 1932, of the seven billion dollars of railroad securities on the legal list, five billion would have been ineligible for investment had it not been for the so-called moratorium which waived certain requirements relative to earnings in relation to fixed charges.

The average banker who shared in this experience probably feels that he was merely a victim of circumstances. Perhaps he was, but obviously if he could not rely on the ultimate security of so basic an industry as the railroads, certainly he is unjustified today, except after the most careful scrutiny, to extend long-term credit to less important enterprises, the success of which may be threatened at any time by the loss of a patent suit, a shift in population or public habits, or the death of a single dominating executive.

Municipal obligations constitute another class of securities which for years have enjoyed legislative endorsement for various purposes and hence were frequently purchased without question by individual and institutional investors. Recent experience, however, has shown that even this type of public obligation cannot be accepted without reference to the financial policies and standing of the issuing community.

We all recognize that a loan should not be made to private industry without a careful appraisal of the management, the outstanding debt, and the prospects for future income and profits. All too frequently banks have failed to apply these tests to municipal borrowers with the result that they have suffered loss, or been forced to accept refunding obligations.

The issuance of special assessment bonds to finance the development of real estate subdivisions; the financing of recurring costs by borrowing; the creation of new taxing authorities when the legal debt limit has been reached; the enactment of homestead exemptions, and the imposition of tax limitations, are some of the practices which have taught us that sound municipal credit is not to be assumed from outward appearances of prosperity. By recognizing the implications of practices such as these, and by pursuing a policy of discrimination in the purchase of municipal obligations, bankers will not only protect their deposits but at the same time will perform a public service by discouraging expenditures which tax collections do not justify.

I realize that the work of a banker in helping his city or village to put its house in order is seldom recognized, and that more often than not his efforts are criticized if coupled with a plan to reduce public expenditures. The banker cannot afford to be discouraged by such incidents. As trustee for large sums of money which are invested in public securities he not only has a right but a duty to exert such influence as he properly can to persuade all units of government to adhere to sound policies of public finance.—WILLIAM R. WHITE, New York State Superintendent of Banks, before the NEW YORK STATE BANKERS ASSOCIATION.

Sound Liberalism

IN this day when new ideas and ideals are sweeping over the world and bringing great social changes, we in the United States cannot hope to escape some grave economic problems and important changes in our national life, and if we bankers wish in future to retain the high place we have occupied as leaders of American thought, we must see to it that our attitude of mind toward these new problems is one based on sound liberalism rather than on Bourbonism or Standpatism.

This applies not only to the changes going on in banking, but also to the many new forces in our social and political life for which all of us are responsible. Changes of momentous importance are going on in our financial and economic structure and many new problems are pressing for solution. Fortunately the appeals of those who would like to overturn the established traditions of American life and embark on some wholly new and revolutionary course have not prevailed, but the struggle between the two opposing forces of traditional American individualism and governmental paternalism still goes on. New leaders have arisen who sometimes wisely, sometimes not wisely, are leading the masses of our people in their demands for a greater share in the material benefits of our nation's wealth and prosperity. Often these demands are so extreme that their fulfillment would inevitably lead to new problems, such as undue inflation and economic unbalance, and we know that in the long run it is not feasible to distribute to any class—employer or employee—a greater proportion of wealth than they contribute to the social pool by their economic efforts.

Excessive demands must somehow be guarded against, and we should do our part in that direction. We must realize, however, that these social movements cannot be stopped by simply attempting to dam up the forces which are running in the direction of giving the masses relatively higher standards of living; the danger is that unless these people gain their ends of bettering their condition constructively they will sooner or later bring about such changes destructively. It behooves us, therefore, to prove that we are not Bourbons—"devoted to the ideas suited only to past conditions"—but that we are sound liberals willing to contribute in our thinking and in our attitude to the efforts which wise leaders are making to reach constructive satisfaction of those demands for higher standards of living for all of our people which are arising with such irresistible force, and which will not be denied.

I believe that through liberalism in their attitude both toward employes and toward the public, American business houses and industries have the power in their own hands to minimize social unrest and combat communism, if they use their power and influence intelligently.

The same sort of sound liberalism has lately been evidenced by bankers in dealing with the new problems we are facing in our own field of activity. Never before in the history of America has so much been done within so short a space of time for the improvement in our banking structure as has been accomplished in the past four years. The new laws put on our statute books were not—as in former years—put there in spite of banker opposition, but rather as the result of banker cooperation. There has been a real determination on the part of the banking fraternity so to improve our banking structure that it will not only serve the country adequately in time of prosperity but will also be able to stand up against the forces of destruction which inevitably come in periods of economic depression and business reaction.

Both our banking authorities and the banking profession have now set their faces resolutely against the return of weak banking and over-banking through the indiscriminate issue of charters to persons unqualified to engage in banking

or for banks in locations where there is no economic justification for additional banking facilities. It is our clear duty to lend the support of the banking profession to the state and national banking authorities who are sincerely trying to maintain the strength of our banking structure by not repeating the fatal mistakes of the past through the overchartering of banks, and by requiring the strictest compliance with our new laws on the part of the management of banks.

Under all the circumstances no one of us should be intolerant, in principle, toward the objectives of sincere social welfare legislation, but we must take care lest the multiplicity of governmental activities for social relief will so heavily increase taxation as to crush individual initiative and become a serious deterrent to the proper development of business and industry. Nor should we permit the public to live under the illusion that our Government is so rich that it can go on indefinitely making any expenditures it cares to make without serious harm ultimately befalling the nation.—R. S. HECHT, Chairman of Board, Hibernia National Bank, New Orleans, before the ALABAMA BANKERS ASSOCIATION.

Monetary Dilemma

IF governmental deficits continue, the banks will be expected in the future, as in the past, to absorb increased quantities of the public debt, which means that any possibility of credit control will be eliminated.

The monetary authorities thus face a real dilemma. The control of expansionist tendencies in credit assumes a balanced budget. The control of credit presupposes higher rates of interest, the elimination of excess bank reserves and a non-expanding volume of credit. It was to control expansionist tendencies that member bank reserves were doubled through administrative action and that gold imports have been sterilized since the middle of December.

On the other hand, the continuation of budgetary deficits will require the maintenance of low money market rates of interest, the enlargement of member bank excess reserves and will assume a continued expansion in bank credit.

The inconsistency in the monetary policies of the Administration was given sharp emphasis by the action of the Federal Reserve banks in initiating a security buying program the first part of April. These purchases served to nullify in part the previous action in raising member bank reserve requirements and in sterilizing gold.

Recent developments have brought us to the fiscal crossroads. To check inflation, we must balance the budget in order that we can exercise adequate credit control. So long as the budget remains unbalanced, it will not be possible to exercise effective control over the credit volume.

Price inflation can only be checked through a general control of credit in the restriction of its use to trade needs. The problem cannot be solved, as the Administration apparently believes, through the fixing of individual prices. To inflate credit with the one hand through budgetary deficits at the time that separate prices are being fixed through some new N.R.A. with the other will inevitably lead to the withdrawing of commodities from the market and to the establishment of illegal markets, both of which will make the situation worse.

The future of the rate of interest is bound up with the prospects of a balanced budget. If the budget is balanced, which means that measures of credit control can be taken, there should be no marked rise in the long-term rate of interest. The pent-up investment demand and the requirements of the Social Security Act should both operate to hold down long-term rates. The short-term rate of interest would be expected to rise to the level of the long-term rate of interest, which would be a salutary development in checking the use of bank credit as a substitute for capital and consumers' income.

If the budget is not balanced forthwith, which assumes that measures of credit control cannot be instituted, the long-term rate of interest will experience a rapid rise as commodity prices increase. The short-term rate of interest can be held down for some time by monetary manipulation. The widening differential between the two will mean that Government fiscal requirements will be financed more and more by increases in the floating debt. The rise in the long-term rate will force banks to take large capital losses in the event that their long-term bond portfolio is sizable, unless Government officials permit the carrying of bonds on the balance sheet at par.

All that this means is that if we are to control inflation we cannot monetize the rate of interest at any particular figure. Interest rates must be allowed to seek their competitive level. The Reserve authorities' action in buying securities is an ominous indication of the impossibility of taking measures against a boom as long as the deficits continue.

Assuming that the budget is in balance, trends in banking assets will depend upon the policies followed by bankers as well as upon developments in the business community. Insofar as the banking fraternity has control of the situation, it should not repeat the mistakes of the 20's in extending bank credit to finance real estate mortgage needs and instalment finance needs. Capital asset inflation of this type would serve only to accentuate business fluctuations.

Fundamentally, banking trends depend upon the fiscal policies of the Government. Once the reason for expansion has been removed from this quarter the banking community will be able to devote itself to its real function of trade finance.

We will then be able to separate the temporary from the permanent forces in the money market as well as in the financial and business organization. We will be able to state with some conviction whether new methods of trade finance have evolved and whether the commercial functions of banks have declined. Trends in bank portfolios over the past three years do not reflect permanent forces, but rather give evidence of a pathological situation in the money market.—BENJAMIN HAGGOTT BECKHART, Associate Professor of Banking, Columbia University, before the CALIFORNIA BANKERS ASSOCIATION.

A Weather Eye on the Bond Market

I WOULD not look for a major permanent decline in the bond market until the Federal Reserve banks sold bills or securities. They would hardly do that (except to limit excess reserves perhaps as an offset to further gold imports, if the Treasury gives them back the job of sterilizing unwanted gold) until the banks were borrowing substantial amounts.

The first real danger signal will probably be an increase in rediscounting, and the final warning an advance in the rediscount rate.

If confidence is reestablished, so that bankers are again inclined to utilize their full resources to earn as high a return as possible on their capital funds, they probably will not sell bonds yielding 2½ or 3 per cent to satisfy what appears to be only a temporary need, when they can borrow from the Federal at 1½ per cent, and the Federal is there just for that purpose.

That is admittedly a very bullish forecast and one that is not concurred in by many.

The sacrifice in yield required to approach a 10-year balanced maturity position today is much less than it has been for several years. I suggest, therefore, that you now lay out a maturity schedule that you would like to arrive at during 1937.

In spite of the improved outlook for business and earnings, I would confine bank investments largely to highest grade and high-grade issues, with only a few "A" grade issues, and, of the latter group, I would purchase as many desirable convertibles as were available, below or close to the call price.

Any bank portfolio must of necessity be heavily weighted with U. S. Government issues. Relatively they are, in my opinion, still cheaper than any other group of securities, and a portfolio which was 100 per cent Governments would not violate any conservative rule of diversification. Government securities in themselves are the last word in diversification, because of the broad taxing powers of the Federal Government, plus their availability for borrowing from the Federal Reserve banks.

Now that the Supreme Court has handed down its decision on the Social Security Act, a possible threat of a sharp reaction in U. S. Governments has been removed.

If you can assume, as I do, that business men and investors will gradually lose their worst fears and gain confidence, we may well compare the position of the bond market today with that of 1924. For several months in that year and 1925, commercial paper and call loans sold on a lower yield basis than U. S. Government bonds, just as they have for several years now. From that date until 1928, bond yields declined.

We cannot overlook the point, of course, that gold exports and Federal Reserve Board action may, at any time, bring about a radical change in the outlook for money rates. Barring some such change, you may well count upon at least a stable, and probably an improving, bond market which it will be well to utilize to put your bond account in such shape that when the next sharp price decline occurs, whether because of economic conditions or another case of 1937 "jitters", you will not feel that you have "missed the boat," even if you have failed to gauge the time of the move and have held your account intact.—HAROLD G. PARKER, Vice-president, Standard Statistics Company, Inc., before the NEW YORK STATE BANKERS ASSOCIATION.